



31st January 2007

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Dear Fellow Austin Exploration, Limited Shareholders,

Activities Report for the Financial Quarter Ending 31 December 2006

Our second quarter of operation for the current financial year has consolidated the activities of the first quarter and seen a number of very positive developments that support the successful execution of our business plan. The key developments in the second quarter include the following:

- The Company has been offered the opportunity to participate in two new prospects in the United States, namely Jeter Branch and SW Edwards which, after extensive review, we have accepted.
- A capital raising of \$11.5 million was successfully completed during the quarter without any shareholder dilution. This enables the company to achieve a free carry on the drilling of three of its unfunded prospects namely St Gabriel II , Jeter Branch and SW Edwards
- We have identified two investor groups who have expressed a desire to participate in further projects we identify.

-As part of this raising the Company sold a net 15% working interest in its St Gabriel I prospect and halved the cost of its drilling obligation. We retain a 65% working interest in this prospect.

-Drilling on both St Gabriel II and Jeter Branch is expected to commence in the current quarter.

-Contracts were signed for the drilling of St Gabriel I with the prospect now being drilled.

- A rig contractor has been identified for the PEL 73 prospect and a rig has been booked. All relevant government approvals have been granted.

-Production is proceeding at Polecat Creek and we expect that in the current quarter we will establish a definitive understanding of our production position. Indications are that our expected recovery will be at the high end of our estimates.

-Further work and analysis on our PEL 105 prospect has been undertaken and we are currently reviewing our position on this promising prospect. We will announce our plans after further discussions with our partners.

We expect the current quarter to commence delivering significant development of the Company's business plan as we are fully funded for our drilling programs and are actively executing them. In addition to our current program further opportunities are expected to emerge and we will position the Company to take advantage of those to continue building value for shareholders.

The Company is committed to its strategy of identifying drill ready prospects with ready market access to generate early cash flows

New Financing

Austin has arranged for an additional A\$11,502,000 of capital (based on an exchange rate of AUD\$1 equals 78.92 US cents) from a commercial transaction with no share holder dilution. This additional capital is denominated in US dollars and therefore creates no foreign exchange exposure for the Company.

The transaction will finance the development and drilling of three prospects in the US at no cost to Austin. Participants in the transaction have been identified as a source of capital with an ongoing appetite for participation in prospects Austin may generate. In addition, the Company has also significantly reduced the cost exposure associated with two existing prospects in the face of increased exploration industry costs both in Australia and the United States. The basis of this financing is a standard oil and gas industry "2 for 1 promote" where an incoming investor pays twice the cost associated with the working interest to be acquired in return for acquiring an interest in an identified prospect. This provides a return for Austin based on the work done in identifying and qualifying prospects while saving the investor time and money required to generate their own prospects.

The two investor groups are Verus Investments Limited, an Australian listed company, and an Australian based private investment group.

St Gabriel Prospect, Iberville Parish, South Louisiana, USA

St Gabriel I

The Company, through its wholly owned subsidiary AUS-TEX, has entered into a farmin agreement relating to a portion of the St Gabriel Field located in Iberville and Ascension Parishes in onshore South Louisiana, some 8 miles southeast of the State capital Baton Rouge. This Prospect is a development location within the existing field found by the interpretation of a newly acquired, 30 square mile, 3D seismic survey.

The St Gabriel Field and the new St Gabriel Prospect is a typical South Louisiana structure, in that it was formed by salt tectonics and subsequent tension faulting. This style of structure is generally productive in South Louisiana, and it has already been proven that the greater structure contains both oil and gas.

AUS-TEX, after initially agreeing to pay 100% of the cost of the first well for an 80% working interest, has sold down a net 15% of its working interest in return for paying only 50% of the cost of the first well. This will give AUS-TEX 56.25% of production revenues from the first well before payout and 48.75% of production revenues after payout of all costs of drilling. For any subsequent appraisal and development drilling AUS-TEX will pay 65% of the cost.

The estimated potential resource from this Prospect ranges from 1.82 MMBL oil and 13.6 BCF of gas to 5MMBL of oil and 36BCF of gas with the most likely potential recoverable resource case being 3.6MMBL of oil and 27.3BCF of gas.

Drilling of this prospect commenced on January 25th and we will inform you as meaningful results emerge.

St Gabriel II

The St. Gabriel Prospect II, located immediately north of the St. Gabriel Prospect I, has a development resource potential of 8 billion cubic feet of gas and 250,000 barrels of oil from one well.

This resource was determined based on electric log analysis, drill stem, and production tests conducted by Shell Oil Company of the existing well. The resource should be recovered from 3 zones which were tested and are present behind pipe in this well.

Austin has the right to acquire an 80% interest in this well and plans to re-enter it and establish production from:

- The W Sand which produced on drill stem test at a rate of 5.8 million cubic feet a day;
- The T Sand which production tested at a rate of 1 million cubic feet of gas per day;
- The P Sand which produced on drill stem test at a rate of 47 barrels of oil per day.

This new block also has exploration potential from 2 lower horizons.

The Company initially acquired an 80% working interest on the basis that it will pay 100% of the costs to develop production and will receive 100% of the revenue until its investment is recouped. Austin was not funded for this project through its IPO raising and as a result has funded the development of this project through its new financing described above.

A 40% working interest has been sold on a 2 for 1 basis such that Austin has no financial obligation on the first well and retains a 40% working interest and 30% net revenue interest

After completion revenue and costs will be split 40%/20%/20% /20% between Austin and its partners.

Drilling is anticipated to commence in late February early March.

Jeter Branch

Jeter Branch is a prospect introduced to the Company by a group with significant experience in the oil and gas industry and well known to Austin management. We were offered the opportunity to acquire a 30% working interest in this prospect as a result of our relationship.

Jeter Branch Prospect is located in Caddo County, Louisiana, US and is designed to test Middle and Upper Cretaceous reservoirs down to 5450 feet. 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. The estimated cost of the well is \$1,742,000 and the estimated potential reserve is 2.1 billion cubic feet of gas and 136,000 barrels of oil.

The Company was not funded for this prospect in the IPO and as a result, the Australian private investment group has committed to take a 15% working interest so that Austin will acquire a no cost "carried interest" in drilling this prospect, retaining a 15% working interest and an 11.1% net revenue interest.

Drilling is anticipated to commence late February to early March.

South West Edwards

South West Edwards is another quality prospect in which Austin was offered the opportunity to acquire a 50% working interest.

The SW Edwards Prospect is located in Hinds County, Mississippi, US and is on trend with excellent production from several Upper Cretaceous reservoirs. 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. The estimated total cost of the well is \$3,338,000 and the estimated potential reserve from the project is 2.86 billion cubic feet of gas and 1,096,000 barrels of oil.

The Company has been able to sell down its interest in this prospect with the Australian private investment group committing to a 12.5% interest and Verus Investments Limited committing to a 12.5% interest. As a result of this Austin will be entitled to a 25% working interest and a 19% net revenue interest with a no drilling cost "carried interest".

Drilling of this prospect is anticipated to commence in mid April.

Polecat Creek Prospect, Falls and Limestone Counties, Texas USA

During the quarter we successfully completed a well at Polecat Creek and as of October 21st have been selling gas into the market.

The well produced at a rate of over 1.5 million cubic feet of gas and 20 barrels of oil on a 16/64ths. choke. This 4100 ft. well also measured Flowing Tubing Pressure of 1200 psi. No water was detected during the process.

We have earned revenue of around \$90,000 to 31 December from this prospect and are still in the process of refining our production position, however based on our current understanding we would expect this prospect to achieve the high end of our projected outcomes.

The Company, through its wholly owned subsidiary AUS-TEX, has farmed into acreage astride the Mexia-Talco Fault Zone currently held by Old Stone Exploration, LLC of Boerne, Texas.

This Prospect is a development well drilled within the Denny Field. It is a horizontal well designed to encounter multiple productive zones as it drills through the Georgetown Formation. Older vertical wells in the Denny Field had good gas and oil shows as they drilled through this formation on the way to deeper targets. The AUS-TEX farmin agreement covers two potential well sites.

The Company has earned a 35% working interest in the prospect by funding 46.7% of the drilling and completion costs of the first well (a 4000 foot vertical well, together with a 3000 foot lateral) plus a prospect fee and lease cost.

Executive Compensation

As an early stage company your Board is mindful of the need to contain costs while aligning executive compensation with creation of value for shareholders. In this instance we have sought to provide modest but balanced base compensation with the objective of attracting the highest calibre people who are prepared to commit to value creation for shareholders and be compensated by sharing in that value creation. The process has been to provide initial compensation combined with a meaningful stake in the company's share price performance and subsequent rewards based on ongoing performance and, at times, specific achievements. We believe this provides a balance which enables us to attract people of quality and commitment who are working to create shareholder value. This matter, while dealt with in our Annual Report, is currently the subject of a formal policy to be provided to you as part of a proposed Extraordinary General Meeting.

The current executive group are all directors of the company and as such any increase or awards of compensation are subject to shareholder approval. As part of this process we are advising our shareholders that the Board has made the following option grants to reward and compensate officers of the Company. It is our intention that no options will be granted at strike price which is less than the highest share price, as at the date of grant, that the Company has achieved.

At a Board Meeting on November 10th, 2006 the Board resolved, subject to shareholder approval, to make option grants to the following directors.

Paul Desmond Teisseire: 400,000 options at a strike price of 55 cents for undertaking the role of Chairman.

Paul Joseph Davies: 500,000 options at a strike price of 55 cents for work done as company secretary and undertaking the role of Chief Financial Officer.

Neville Wayne Martin : 350,000 options at a strike price of \$1.00 for taking on additional Board responsibilities.

At a Board Meeting on January 13, 2007 the Board resolved, subject to shareholder approval, to make the following option grants:

David Max Schuette: 2,500,000 options at a strike price of \$1.20 for work done in identifying new prospects and providing the basis for a significant new financing for the company.

Paul Joseph Davies: 2,000,000 options at a strike price of \$1.20 for work done in arranging and completing a significant new financing for the Company.

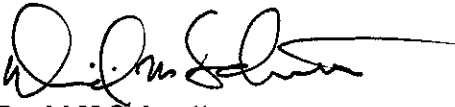
Donald Frederick Reck: 1,000,000 options at a strike price of \$1.20 for work done on the technical evaluation relating to new prospects and supporting efforts associated with the new financing.

Summary

From the aforementioned events, Austin has further demonstrated commitment to our stated objective of developing a portfolio of drill ready prospects close to infrastructure to enable early cash flows and increase in shareholder value. These commercial achievements have been a watershed in the Company's development

Yours faithfully

AUSTIN EXPLORATION LIMITED

A handwritten signature in black ink, appearing to read "David M Schuette", with a long horizontal flourish extending to the right.

David M Schuette

Managing Director

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

AUSTIN EXPLORATION LIMITED

ABN

98 114 198 471

Quarter ended ("current quarter")

31 December 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (...six... months) \$A'000
1.1 Receipts from product sales and related debtors	89	89
1.2 Payments for (a) exploration and evaluation		
(b) development	(2066)	(2532)
(c) production		
(d) administration	(1019)	(1041)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	71	180
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Realisation of prepayments and increase in debtors	305	305
	(2620)	(2999)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	(22)	(138)
(b)equity investments		
(c) other fixed assets		
1.9 Proceeds from sale of: (a)right to interest in prospects plus cost recovery and prospect fees	950	950
(b)equity investments		
(c)other fixed assets		
1.10 Loans to other entities		()
1.11 Director and Other Loans repaid	(322)	(322)
1.12 Funds received to finance drilling	3081	3081
	3687	3571
Net investing cash flows		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (carried forward)	1067	572
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+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)		
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.		10485
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 –IPO Costs	119	(1175)
	Net financing cash flows	119	9310
	Net increase (decrease) in cash held	1186	9882
1.20	Cash at beginning of quarter/year to date	8738	42
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	9924	9924

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'000
1.23	Aggregate amount of payments to the parties included in item 1.2	
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

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

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

Financing facilities available

Add notes as necessary for an understanding of the position.

Amount available \$A'000	Amount used \$A'000
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+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

3.1	Committed facilities associated with Farmins providing no cost carry	11,500	0
3.2	Credit standby arrangements		

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	
4.2	Development	6162
Total		

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'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	9892	8738
5.2	Deposits at call	32	
5.3	Bank overdraft		
5.4	Other (provide details)		
Total: cash at end of quarter (item 1.22)		9924	8738

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	St Gabriel 1	Right to acquire working interest	80%	65%
		St Gabriel 11	Right to acquire working interest	80%	40%
6.2	Interests in mining tenements acquired or increased	St Gabriel 1	Right to acquire working interest	80%	65%
		Jeter Branch	Right to acquire working interest	0	15%
		Southwest Edwards	Right to acquire working interest	0	25%

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	112193125	56910628		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 *Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	7,400,000 "2011 A Class" Options 12,600,00 "2011 B Class Options" 12,600,000 "2011 C Class Options"		<i>Exercise price</i> \$0.30 \$0.50 \$0.75	<i>Expiry date</i> 30 June 2011 30 June 2011 30 June 2011
7.8 Issued during quarter	Nil			
7.9 Exercised during quarter	Nil			
7.10 Expired during quarter	Nil			
7.11 Debentures <i>(totals only)</i>				

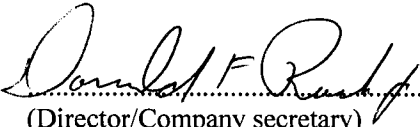
+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.12	Unsecured notes (totals only)		
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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: Jan 30, 2007
(Director/Company secretary)

Print name: Donald F. Reck Jr.

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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+ See chapter 19 for defined terms.