

AUSTIN EXPLORATION LIMITED

ABN 35 116 249 060



First Quarter Report
FY2009

For the Period Ended
September 30, 2008

OVERVIEW OF OPERATIONS AND ACTIVITIES

Exploration and Production

The company currently maintains working interest and net revenue interests in five key oil and gas assets.

U.S. Assets

Two of the company's three United States assets continue to produce gas and oil to sales while the third has become a major new emphasis for the company.

1. The Polecat Creek well recently underwent a series of significant down-hole repairs and was followed with an acid stimulation procedure designed to increase daily production. The well was off production for approximately three weeks and the company expects this well to be back on the delivery system before the end of October.
2. The Park City project has encountered a series of delays associated with the operator's ability to complete 18 Austin Exploration wells, all of which have New Albany shale gas formations present. This has jeopardized the company's ability to achieve the RET contracted five-phase 200-well drilling program.

Austin has filed a Request for Preliminary Injunction in the United States Federal District Court against Resource Energy Technologies, LLC ("RET"). The company is asking the Federal Court to protect our investment and future gas revenues by forcing RET to put those monies into a court managed bank account.

To date, no income from the sale of oil and gas by RET on behalf of Austin Exploration has been received by AKK.

For more detail about the lawsuit please refer to the company's ASX release on this subject dated 23rd Oct..

3. The Moses Austin Project area currently has four well sites identified and an expansion program is underway. The acquisition of additional mineral rights and well locations has also been identified. Austin anticipates a drilling program to begin this October.

Australian Assets

The company's two Australian assets have both seen progress this quarter.

1. The PEL73 licence recently underwent a proprietary hydrocarbon study to assist the company with pinpointing the next drill site. The data from that study was very encouraging. It is currently being analysed and should be ready for publication before the end of the calendar year.
2. The PEL105 licence has also seen significant progress by the operator, Adelaide Energy Limited. A significant fault line was discovered in May and is now undergoing a seismic study to help pinpoint the first drill site for Austin at this licence.

PRINCIPAL OIL AND GAS ASSETS DETAIL

PARK CITY GAS PROJECT (State of Kentucky, USA)

The initial company focus area encompasses approximately 8,000 acres located in Park City, Kentucky USA. Concentration is being placed on the New Albany Shale and Fort Payne Limestone formations. An expansion plan into an adjacent 25,000 acres of mineral leases on the same geologic structure is also contemplated.

To date 18 wells have been drilled to date. New Albany shale formations of adequate thickness to produce gas are present in all 18 wells. One of these wells also contains a Fort Payne formation of adequate thickness to produce gas. The Coniferous formation is producing oil to storage at one well, while two others had oil in the well-bore but have not been completed by the Operator (RET).

A thorough review of the well geologic data has determined that the primary focus for long term gas production should shift from the Fort Payne formation to the longer lasting New Albany shale formation. The New Albany shale is present in all of Austin's 18 wells and the 46 RET wells drilled prior to Austin joining the project.

Gas production to the plant from July 1st 2008 to present was reported at 8,446.1018 mcf to the interest of AKK. Naturally producing wells began delivering gas to sales at varying rates during this period. Oil production to storage at the James Spillman #1 well is averaging 40 barrels per month. Plans for a down-hole acid treatment designed to stimulate the oil producing formation is being coordinated with the Operator (RET). The operator has not set a date for the stimulation at this time.

After a May pause in drilling by Austin, Bruington Engineering of Texas was hired to review the completion procedures of the Operator (RET) and to enhance the skill sets of the RET field personal and local service teams. To date, the Operator (RET) has been unable to accomplish New Albany Shale fracture and completion procedures in a timely enough manner to achieve 50 connected wells per year as originally planned. Additional technical knowledge and skills sets at the Park City local level will be required before Austin can reach that desired rate of completion.

The company is working diligently with the operator and investors in other wells that the operator maintains, to initiate and complete three New Albany shale fracture procedures. Completion of this testing is required to more accurately forecast production and decline rates for the field and to determine the best method for extracting the most gas from the shale. Upon completion of the individual three well fracture procedures, Austin will adjust the company's previously announced annual well completion and gas production forecasts accordingly

The Operator also maintains operating agreements with Atmos Energy Gathering Company to manage the in place gas delivery pipeline and processing plan and maintains a gas sales agreement with Atmos Energy Marketing Company.

The company maintains an undivided 75% Working Interest and a 65.625% Net Revenue Interest in every well it drills at Park City, moving to a 56.25% Net Revenue Interest from January 1, 2009. Austin maintains a 33.333% Net Revenue Interest in wells that it acquires.

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Mining exploration entity quarterly report

MOSES AUSTIN OIL AND GAS PROJECT (State of Texas, USA)

This project is a major addition to the company's exploration, development and production portfolio. The company plans to acquire and expand its mineral lease holdings in this area. The initial acquisition of 731.88 acres (2.96 km²) is located inside one of the most productive fields in the United States.

The company has contracted with Bruington Operating, LLC to be the operator of record for all drilling programs in this project area. Additional mineral rights are currently being acquired at the Moses Austin Project and Giddings Field play.

Although a potential reserve number is not available, typical oil wells in this field initially test 50 to 150 barrels of oil per day from the Eagleford oil shale, Georgetown and Buda formations. Typical gas wells in this field initially test 500 mcf to 1.5 MMCF of gas per day from the Georgetown formation.

The company anticipates that a drilling program will be underway in October of 2008.

The initial lease acquired by the company (the Rhodes family lease) is part of a larger geographic resource play that has recently seen a significant increase in drilling activity, due in large part to the size of the resources made available in the Eagleford oil shale and Georgetown gas play. Austin acquired no less than a 75% Net Revenue Interest & Newtak Pty LTD has agreed to take 30% of this interest, representing a 22.5% NRI. This gives Austin a net 52.500% NRI in this initial lease.

POLECAT CREEK OIL AND GAS WELL (State of Texas, USA)

This well represents the first prospect drilled by the company. Polecat Creek was started and completed at the beginning of calendar year 2007.

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 tested 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.

The well originally produced between 400 mcf to 600 mcf of natural gas per day and averaged approximately 100 barrels of oil per day. Since completion the well has gradually declined to a hyperbolic state and is currently producing approximately 50 mcf of gas and 1-2 barrels of oil per day. Significantly the well has never been stimulated in any way.

On August 26, 2008 the company announced that it has agreed to a planned acid stimulation procedure on this well. This stimulation procedure is anticipated to contact new reservoir areas and increase permeability. Coupled with a lift valve replacement and the lowering of the tubing this process could increase daily production to 300-500 mcf of gas per day and oil production to approximately 5 barrels a day.

Austin maintains a 26.25% NRI in this well.

PEL 73 OIL AND GAS PROSPECT (Stansbury Basin, South Australia)

+ See chapter 19 for defined terms.

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PEL 73 contains the Yorketown prospect which is located 96 kilometres west of Adelaide and relatively close to delivery and sales infrastructure. It covers an area of 625 square kilometres within the Stansbury basin, which has been the subject of both onshore and offshore drilling since the 1930's.

The company began a Direct Hydrocarbon Sensing and Detection Testing study in September to assist with the possible identification of additional hot spots and drill site locations. Testing crews and equipment were deployed to the licence and their field-work has been completed. The data will now be studied and correlated into a formal recommendation for a new drilling program.

Initial interpretation of the raw data is encouraging.

Austin maintains a 16.666% Working Interest the PEL 73 prospect.

PEL 105 OIL AND GAS PROSPECT (Cooper Basin, South Australia)

Petroleum Exploration Licence 105 (PEL 105) is an area of 437 sq km approximately 60 kms north of Moomba in South Australia. Austin and Adelaide Energy have developed a farmin agreement that was formally announced on October 10, 2007.

In May of this year the two companies announced that a significant fault line had been discovered. This new discovery will be the basis for the initial drilling location of the PEL 105 Cooper Basin prospect. Independent geophysical and reservoir consultants contracted by Adelaide Energy have completed a detailed review of the area, analysed the downdip Toonman #1 well and have estimated possible reserves (P10) of up to 6200 MMscf (6.2 billion cubic feet) of gas and 1040 kstb (1.04 million barrels) of oil/condensate.

The fault line upthrows the proven Tirrawarra sand, productive at the nearby Moorari and Tirrawarra fields, by over 100m and is just east of the gas and condensate bearing Toonman #1 well drilled by Santos in the 1980's.

Well planning is now underway for the "Pirie #1" well with commencement expected in the third quarter of 2008. In addition, 100 kms of 2D seismic has been ordered for the Permit and scheduled also for the third quarter of 2008. The companies will announce more detailed information as it becomes available. Austin and Adelaide Energy are working together as a result of a farmin agreement that was formally announced on October 10, 2007.

The prospect area is surrounded by producing fields, some of which are the largest in the Cooper Basin. Within the boundaries of PEL 105, but excised from it, are the Bimbaya Field (19 BCF of gas), the Bookabourdie Field (80 BCF of gas) and the Merupa Field (1.5 BCF of gas).

The agreement provides Austin with 100% interest of the PEL 105 licence. **Adelaide Energy Limited** has been named the official operator and has the right to earn 50% of Austin's interest by fully funding the first well in 2008/2009.

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Mining exploration entity quarterly report

CONSOLIDATED VIEW OF OIL AND GAS HOLDINGS

Austin Exploration Limited Summary of Oil and Gas Holdings				
ACTIVE PROJECTS				
Licence / Lease	Location	Working Interest	Net Revenue Interest	Commentary
PEL 105 Oil and Gas Licence	Cooper Basin, South Australia	100.000%	100.000%	Farmin agreement provides Adelaide Energy Limited the opportunity to earn a 50% NRI after the first well is completed
PEL 73 Oil and Gas Licence	Stansbury Basin, South Australia	16.670%	12.500%	Proprietary "Direct Hydrocarbon Sensing and Detection" study to begin September 2008
Park City Gas Field	Kentucky, USA	75.000%	65.625% for wells drilled for AKK and 33.33% for wells acquired by AKK	NRI decrease to 56.25% on Jan 1, 2009, 18 wells currently drilled
Moses Austin Project				
The Rhodes Family lease	Texas, USA	100.000%	52.500%	A 731.88 acre area acquired on July 31st, 2008. Austin acquired no less than a 75% Net Revenue Interest & Newtak Pty LTD has agreed to take 30% of this interest, representing a 22.5% NRI
Polecat Creek Well	Texas, USA	35.000%	26.250%	

+ See chapter 19 for defined terms.

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Mining exploration entity quarterly report

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

Name of entity

Austin Exploration Limited

ABN

98 114 198 471

Quarter ended ("current quarter")

30 September 2008

Consolidated statement of cash flows

	Current quarter \$A	Year to date (3 months) \$A
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	11,319	11,319
1.2 Payments for (a) exploration and Evaluation (b) development (c) production (d) administration	(31,755) (691,865)	(31,755) (691,865)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	23,734	23,734
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)		
Net Operating Cash Flows	(688,567)	(688,567)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) development (c) equity investments (d) other fixed assets	(321,392) (59,711) (36,694)	(321,392) (59,711) (36,694)
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	(1,936)	(1,936)
Net investing cash flows	(419,733)	(419,733)
1.13 Total operating and investing cash flows (carried forward)	(1,108,300)	(1,108,300)

+ See chapter 19 for defined terms.

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Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,108,300)	(1,108,300)
	Cash flows related to financing activities		
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)		
	Net financing cash flows	0	0
	Net increase (decrease) in cash held	(1,108,300)	(1,108,300)
1.20	Cash at beginning of quarter/year to date	2,340,001	2,340,001
1.21	Exchange rate adjustments to item 1.20	39,657	39,657
1.22	Cash at end of quarter	\$1,271,358	\$1,271,358

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	86,505
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 and Directors fees to Directors

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

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Add notes as necessary for an understanding of the position.

	Amount available \$A	Amount used \$A
3.1 Loan facilities	2,943,742	2,943,742
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A
4.1 Exploration and evaluation	350,000
4.2 Development	0
Total	350,000

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	1,271,358	2,340,001
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	1,271,358	2,340,001

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	Moses Austin TX USA	0%	100%
		RET #1	0%	27.5%
		Acquired working interest in producing well		

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RET #2	Acquired working interest in producing well	0%	27.5%
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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	120,125,859	120,125,859		
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				

+ See chapter 19 for defined terms.

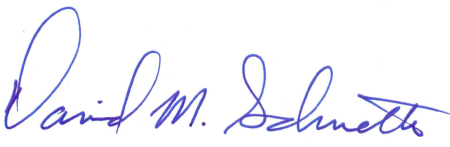
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7.7	Options (description and conversion factor)	5,400,000 "2011 A Class Options"		Exercise price \$.30	Expiry date 30 June 2011
		12,600,000 "2011 B Class Options"		\$.50	30 June 2011
		12,600,000 "2011 C Class Options"		\$.75	30 June 2011
		541,667 "2012 D Class Options"		\$.24	28 February 2013
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

Compliance statement

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

2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: 10-29-2008
(Director/Company secretary)

Print name: David M Schuette, Managing Director & CEO

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Mining exploration entity quarterly report

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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