



AUSTIN EXPLORATION LIMITED

INTERIM FINANCIAL REPORT

HALF-YEAR ENDED 31 DECEMBER 2006

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AUSTIN EXPLORATION LTD

DIRECTOR'S REPORT

Your Directors submit the financial report of the consolidated entity for the half-year ended 31 December 2006.

Directors

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

- | | |
|--|------------------------------------|
| • Paul Desmond Teisseire | Appointed Chairman 18 October 2006 |
| • Dr. James Michael Edwards | |
| • Neville Wayne Martin | |
| • David Max Schuette | |
| • Donald Frederick Reck Jr. | |
| • Kenneth David Goughnour | |
| • Paul Joseph Davies | Appointed 10 November 2006 |
| • Dr. Krishna Kumar Jajodia | Retired 10 November 2006 |
| • Right Hon. Kenneth Peter Lyle Mackay | Retired 10 November 2006 |
| • Aditya Kumar Jajodia | Retired 10 November 2006 |

Company Secretary

Paul J Davies was appointed Company Secretary on 18 October 2006. Kent M Grey resigned from this position on 18 October 2006.

Review of Operations

During the half-year ended 31 December 2006, the consolidated entity incurred a loss after income tax expense of \$181,018. Income tax expense of \$364,088 included in the loss for the half year relates to the deferred tax assets associated with capital raising costs incurred during the period. As it is not probable that the future income tax benefit will be utilised in the foreseeable future, it has been expensed in the period ended 31 December, 2006.

The following summary sets forth the primary operational highlights for the half-year ended 31 December 2006; a more detailed review of these activities can be found in the Company's Activity Reports for the Quarters Ended 30 September 2006 (filed with the ASX on 30 October 2006) and 31 December 2006 (filed with the ASX on 30 January 2007).

The Company:

- The Company's Initial Public Offering of \$10 million closed oversubscribed and we were admitted to the list of the Australian Stock Exchange on July 20th
- Drilling commenced on our Polecat Creek prospect and the well was successfully completed with the Company earning its 35% interest in this prospect
- We identified a second opportunity in the St Gabriel region, St Gabriel II, and we are entitled to acquire an 80% interest in this prospect
- The Company was offered the opportunity to participate in two new prospects in the United States, namely Jetter Branch and SW Edwards. After extensive review we decided to participate in these prospects.
- As of October 21st we were selling oil and gas into the market in Texas and we reported our first revenues from that activity in the December quarter.

AUSTIN EXPLORATION LTD

DIRECTOR'S REPORT

- The Company successfully raised \$11.5 million by a farmout of a 20% working interest in St Gabriel 1 and a 2 for 1 farmout of available, but unfunded interests, in St Gabriel 11 , Jeter Branch and Southwest Edwards. This enables the company to achieve a free carry on the drilling of these three unfunded prospects namely St Gabriel II (40% working interest after farmout), Jeter Branch(15% working interest after farmout), and Southwest Edwards(25% working interest after farmout).

-Drilling on St Gabriel II , Southwest Edwards and Jeter Branch is expected to commence in the current half year.

-Production is proceeding at Polecat Creek and we expect that in the current quarter we will establish a definitive understanding of our production position.

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

-The drilling of St Gabriel 1, in which Austin Exploration Limited through its wholly owned subsidiary AUS-TEX holds a 65% working interest was completed after balance date with an unsatisfactory outcome. The Company will review its options in relation to this holding once it has had the opportunity to consider all the relevant information

- Since balance date we had a disappointment on the PEL 73 prospect in which we hold a one sixth interest. While a show was encountered at 691-699 meters according to the wireline logs, it was not economically viable given the lack of infrastructure and poor access to market and the well was plugged. The Company along with the other interest holders in this prospect will review the results of this drill and determine the path forward.

While the current half did not commence as we had hoped 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 take advantage of those to continue building value for shareholders.

Subsequent events

Drilling on two of the Company's prospects was completed subsequent to the reporting date.

St Gabriel 1-Louisiana USA

Austin Exploration Ltd owns a 65% working interest in this prospect after payout.

Drilling commenced in late January and was finished around February 27th when the Company ran a wireline log analysis. While we had a number of encouraging shows during the course of drilling we encountered abnormally high pressures before reaching target depth and it was determined to be uneconomic to proceed to target depth.

The Company will review its position in relation to this prospect in consultation with the other interest holders and after having the opportunity to consider all the information available.

PEL 73 – Yorketown South Australia

Austin Exploration Ltd owns a one sixth working interest in this prospect.

Drilling commenced on this prospect in mid February with drilling expected to reach a target depth of 1850 metres. During the course of drilling it became apparent that the Lower Paleozoic section was 700 metres thinner than indicated in our seismic information and we ultimately drilled through to the basement at about 1100 metres. Wireline log analysis was then undertaken and it was determined that while this log analysis showed an 8 metre hydrocarbon pay zone it was uneconomic to produce given lack of local infrastructure and poor market access.

The Company will consider its position in consultation with the other interest holders and review all its information before determining its path forward on this.

AUSTIN EXPLORATION LTD

DIRECTOR'S REPORT

Non-audit Services

The board of the directors is satisfied that the provision of non-audit services during the period is compatible with the general standard of independence for auditors imposed by Corporations Act 2001. The directors are satisfied that the service disclosed below did not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement APES 320: Professional Practice.

The following non-audit services were provided by the external auditors during the period ended 31 December 2006:

- provision of independent accountants report for the prospectus - \$9,000.

Auditor's Declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4 for the half year ended 31 December, 2006.

Signed in accordance with a resolution of the Board of Directors



.....
Paul D Teisseire
Chairman

Adelaide

Dated this 16th day of March 2007

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Austin Exploration Limited for the half-year ended 31 December 2006, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at Adelaide this 16 day of March 2007

AUSTIN EXPLORATION LTD

CONSOLIDATED INTERIM INCOME STATEMENT

For the half year ended 31 December 2006

	Note	Consolidated Entity 31 Dec 2006 \$	31 Dec 2005 \$
Revenues from ordinary activities	4	1,193,169	-
Expenses from ordinary activities			
Directors fees		(15,694)	-
Consulting fees		(330,061)	-
Travel and accommodation expenses		(385,557)	-
Other expenses		(278,787)	-
Profit/(Loss) before income tax expense		183,070	-
Income tax expense	5	(364,088)	-
Loss for the six months to December 31st		(181,018)	-
Loss attributable to members of the consolidated entity		(181,018)	-
Basic loss per share			
		Cents (.16)	Cents N/A

Notes to the financial statements are included on pages 9 to 10

AUSTIN EXPLORATION LTD

CONSOLIDATED INTERIM BALANCE SHEET

For the half year ended 31 December 2006

	Note	Consolidated Entity	
		31 Dec 2006 \$	30 June 2006 \$
CURRENT ASSETS			
Cash and cash equivalents		10,016,146	41,748
Trade and other receivables		109,343	24,313
Other current assets		-	416,304
TOTAL CURRENT ASSETS		10,125,489	482,365
NON-CURRENT ASSETS			
Property, plant and equipment		4,180	5,788
Development assets		1,344,670	-
Exploration and evaluation expenditure		2,299,140	795,032
TOTAL NON-CURRENT ASSETS		3,647,990	800,820
TOTAL ASSETS		13,773,479	1,283,185
CURRENT LIABILITIES			
Trade and other payables		3,431,713	171,563
Short-term borrowings		-	224,922
TOTAL CURRENT LIABILITIES		3,431,713	396,485
NON-CURRENT LIABILITIES			
Long term borrowings		-	-
TOTAL NON-CURRENT LIABILITIES		-	-
TOTAL LIABILITIES		3,431,713	396,485
NET ASSETS		10,341,766	886,700
EQUITY			
Issued capital	6	10,582,584	946,500
Share option reserve		7,400	7,400
Retained Profit/(losses)		(248,218)	(67,200)
TOTAL EQUITY		10,341,766	886,700

Notes to the financial statements are included on pages 9 to 10

AUSTIN EXPLORATION LTD

CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the half year ended 31 December 2006

	Consolidated Entity	
	31 Dec 2006 \$	31 Dec 2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,013,385	-
Payments to suppliers and employees	(660,847)	-
Interest received	179,784	-
Finance costs	-	-
	532,322	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration expenditure	(2,848,778)	-
Payments for development expenditure	-	-
Joint venture contributions received	3,081,348	-
	232,570	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the Issue of Ordinary Shares	10,485,625	-
Payments for transactions costs associated with capital raisings	(1,051,197)	-
Borrowings drawdown/(repayment)	(224,922)	-
	9,209,506	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Net increase/(decrease) in cash held	9,974,398	-
Cash at 1 July, 2006	41,748	-
Cash at 31 December, 2006	10,016,146	-

Notes to the financial statements are included on pages 9 to 10

AUSTIN EXPLORATION LTD

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the half year ended 31 December 2006

	Issued Capital \$	Consolidated Entity Accumulated Losses \$	Share Option Reserve	Total \$
BALANCE AT 1 JULY 2006	946,500	(67,200)	7,400	886,700
Shares issued during the period	10,485,625	-	-	10,485,625
Cost of capital raising (net of tax)	(849,541)	-	-	(849,541)
Loss attributable to the members of parent entity	-	(181,018)	-	(181,018)
BALANCE AT 31 DECEMBER 2006	<u>10,582,584</u>	<u>(248,218)</u>	<u>7,400</u>	<u>10,341,766</u>

Notes to the financial statements are included on pages 9 to 10

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2006

NOTE 1 – REPORTING ENTITY

Austin Exploration Limited (the “Company”) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the “consolidated entity”).

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006 is available at www.austinexploration.com.

NOTE 2 – STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

NOTE 4 – REVENUES

	31 December 2006 \$	31 December 2005 \$
Sale of mining information	950,329	-
Sale of oil and gas	63,056	-
Interest received	179,784	-
Total	1,193,169	-

NOTE 5 – INCOME TAX

In accordance with AASB 112 – Income Tax, the consolidated entity has written off its deferred tax asset of \$364,088 resulting from capital raising costs incurred during the six months ended 31 December 2006. It is the Directors’ opinion that the deferred tax asset does not meet the criteria for recognition.

NOTE 6 – ISSUED CAPITAL

		Consolidated Entity	
	Date Issued	Ordinary Shares	\$
Balance at 30 June 2006		59,765,000	946,500
Seed capital	8 July 2006	400,000	80,000
Initial Public Offering	8 July 2006	52,028,125	10,405,625
Cost of capital raising (net of tax)			(849,541)
Balance at 31 December 2006		112,193,125	10,582,584

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2006

NOTE 7 – SEGMENT REPORTING

Primary reporting – Business Segment

The entity operates in the oil and gas exploration industry within Australia and the USA.

2006

Geographic segments

	Australia \$	USA \$
Total Revenue	179,784	1,008,145
Depreciation and amortisation	(1,608)	-
Segment result	(464,274)	647,344
Income tax expense	(364,088)	-
Segment assets	11,425,411	2,348,068
Additions to non current assets	1,381,130	1,467,648
Segment liabilities	37,212	3,394,501

The Company does not have any differentiated business segments.

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, intangibles, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable and accrued expenses. Segment assets include all assets used by a segment.

NOTE 8 – CONTINGENT LIABILITIES

There has been no material change to contingent liabilities since the last annual reporting date.

DIRECTORS' DECLARATION

In the opinion of the Directors:

1. The Financial Statements and Notes are in accordance with the *Corporations Act 2001* and:
 - a) give a true and fair view of the Company's financial position as at 31 December 2006 and of its performance for the half year ended on that date of the Company and consolidated entity; and
 - b) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001
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.

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



.....
Paul D Teisseire
Chairman

Adelaide

Dated this 16th day of March 2007

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF AUSTIN EXPLORATION LIMITED & CONTROLLED ENTITY**

Scope

Report on the financial report

We have reviewed the accompanying interim financial report of Austin Exploration Limited and Controlled Entity, which comprises the consolidated interim balance sheet as at 31 December 2006, the income statement, statement of changes in equity, cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the Financial Report

The directors' of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim 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.

Auditors' responsibility

Our responsibility is to express an opinion on the interim financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the interim financial report is not presented fairly, in all material respects, in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. As the auditor of Austin Exploration Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Austin Exploration Limited is not in accordance with the Corporations Act 2001, including:

- i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at Adelaide this 16 day of March 2007