



AUSTIN EXPLORATION LIMITED
A.C.N. 114 198 471

INTERIM FINANCIAL REPORT

HALF-YEAR ENDED 31 DECEMBER 2007

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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 2007.

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
- Dr. James Michael Edwards
- Neville Wayne Martin
- David Max Schuette
- Donald Frederick Reck Jr. Retired 21 January 2008
- Paul Joseph Davies Retired 29 November 2007

Company Secretary

Graham A Seppelt was appointed Company Secretary on 26 July 2007. Paul J Davies resigned from this position on 26 July 2007.

Review of Operations

As announced at the Annual General Meeting on 29 November 2007 the company made a significant decision to shift the strategic focus of the company from exclusively Oil and Gas Exploration toward a less risky and more predictable "Development of Known Resources" business model. This strategic shift in focus has been most dramatic in the U.S.A. based operations of the company. This business unit saw a series of high risk, moderate cost exploration plays result in five dry holes in calendar year 2007. However, the U.S.A. based operations have also produced a multi thousand acre Gas Development opportunity in the state of Kentucky that could give the company several years of production from proven gas reserves. In February 2008, the company entered into a definitive agreement to acquire this Kentucky prospect and commenced its multi-well drilling program.

Our Australian Operation continues to see potential within the PEL 73 and PEL 105 licence areas. The renewal of these licence 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.

Principle Oil and Gas Assets

AUSTRALIA:

- **PEL 73** – DMS Partners LP, as operator, has renewed the licence on PEL 73 and will make a recommendation as how to proceed with exploration. The structure is very large and additional seismic data and geologic studies need to be acquired before any new wells are proposed.
- **PEL 105** – Adelaide Energy has executed a farmin agreement with Austin whereby it has the right to earn a 50% interest in PEL 105 by funding 100% of the cost of the first commitment well. A new work program has been proposed and accepted by PIRSA.

U.S.A.

- **St. Gabriel I** – Drillmar Oil and Gas, LLC has taken over operations of the well and deepened the well to 10,790 ft. The “W” sand was encountered at 10,500 ft as predicted; the well was cased to TD. The initial zone tested proved to be non-commercial. The operator is currently testing an additional zone.
- **St. Gabriel II** – 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.
- **Polecat Creek** – Production has declined on this well and Aus-tex’s share of the wells net revenues are at approximately break –even. We are talking with the operator to see what can be done to change this situation.
- **SW Edwards** – A final total depth of 12,494 ft. was reached on August 8, 2007. The well was logged, casing was set to 12,494 ft., and a completion attempt was made by perforating and testing a zone from 12,180 -12,210 ft. The zone proved to be non-commercial so the operator decided to plug the well.
- **Jeter Branch** – Aus-Tex tested a zone from 5,512 ft. to 5,529 ft. that looked potentially productive based on the electric logs and core samples. The zone proved to be non-commercial so the operator decided to plug the well.
- **Lil’ Bit Prospect** – The well was named the Ameristate Exploration, LLC Kenedy Ranch No.11 and drilled to a total depth of 7,100 ft. on November 3, 2007. The well was logged and consequently a zone was tested at 6,939 ft. that proved to be non-commercial. The operator plugged and abandoned the well

At December 31, 2007, the Directors’ reviewed the carrying values of the Development and Exploration prospects above to determine whether there is any indication that those assets have been impaired. For each of the prospects above, they compared the asset’s fair value less costs to sell and value in use to the asset’s carrying value. Where it was not possible to estimate the recoverable amount of an individual asset, the Directors’ estimated the recoverable amount of the cash-generating unit to which the asset belongs.

Applying these principles, the Company impaired fully the carrying value for the following prospects: St Gabriel II, Polecat Creek, Jeter, SW Edwards and Lil’ Bit Prospect. Additionally, the Directors made a decision to impair 50% of the capitalized costs of the St Gabriel I prospect. Management will assess the remaining 50% of the capitalized costs for this well in connection with its June 30, 2008 fiscal year end.

Subsequent events

Subsequent to December 31, 2007, the Company entered into an agreement (the “Agreement”) with Resource Energy Technologies, LLC, (RET) and has commenced a shallow well drilling schedule on a large RET gas project in the US state of Kentucky. The drill schedule is expected to deliver approximately 44 producing wells by the end of calendar year 2008 and 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.

As part of the funding program for this project, the company has entered into an AUD\$5m investment letter of intent with a private Australian based investment group.

It is proposed under the letter of intent that:

- non recourse funding will be provided against the security of anticipated cash flow from the Park City Gas Field on terms which entitles the investor to receive up to AUD\$10M over 3 years;

- the investor will receive 16,828,969 options to acquire shares in Austin Exploration at an exercise price of \$0.25 and with an exercise period of 3 years (which if fully exercised would raise additional capital for the Company of \$4,207,242.25);
- the members of the investment group will respectively receive an overriding royalty interest of 5% and 4.375%.

The letter of intent is non binding and detailed agreements are to be negotiated.

The granting of the proposed overriding royalty interests will result in Austin Exploration holding a 56.25% net revenue interest.

The initial 24 month drilling focus is within a proven production field that includes over 60 existing gas wells operated 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 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 into an adjacent 25,000 acres of mineral leases on the same geologic structure is also now underway.

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.

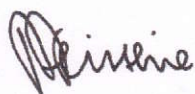
The following non-audit services were provided by the external auditors during the period ended 31 December 2007:

- Provision of taxation services - \$7,840

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, 2007.

Signed in accordance with a resolution of the Board of Directors



.....
Paul D Teisseire
Chairman

Adelaide

Dated this 14th day of March 2008



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

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 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 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 in Adelaide on this 14th day of March 2008

AUSTIN EXPLORATION LTD
CONSOLIDATED INTERIM INCOME STATEMENT
For the half year ended 31 December 2007

		Consolidated Entity	
		31 Dec 2007	31 Dec 2006
	Note	\$	\$
Revenues from ordinary activities	2	163,324	1,193,169
Expenses from ordinary activities			
Impairment Charge	3	(3,828,323)	-
Amortisation		(50,367)	-
Lease operating expense		(43,653)	-
Directors fees		(17,939)	(15,694)
Employment and Consulting fees		(318,283)	(330,061)
Travel and accommodation expenses		(135,208)	(385,557)
Other expenses		(563,445)	(278,787)
		<u>(4,957,218)</u>	<u>(1,010,099)</u>
Profit/(Loss) before income tax expense		(4,793,894)	183,070
Income tax expense	4	-	(364,088)
Loss for the six months to December 31st		<u>(4,793,894)</u>	<u>(181,018)</u>
Loss attributable to members of the consolidated entity		<u>(4,793,894)</u>	<u>(181,018)</u>
		Cents	Cents
Basic loss per share		(4.27)	(.16)

Notes to the financial statements are included on pages 9 to 12

AUSTIN EXPLORATION LTD
CONSOLIDATED INTERIM BALANCE SHEET
For the half year ended 31 December 2007

	Note	Consolidated Entity	
		31 Dec 2007 \$	30 June 2007 \$
CURRENT ASSETS			
Cash and cash equivalents		2,041,189	7,802,664
Trade and other receivables		54,313	1,880,231
Other current assets		81,145	66,668
TOTAL CURRENT ASSETS		<u>2,176,647</u>	<u>9,749,563</u>
NON-CURRENT ASSETS			
Financial assets		4,568	-
Property, plant and equipment		35,395	44,356
Development assets		45,000	449,539
Exploration and evaluation expenditure		2,661,492	4,712,643
TOTAL NON-CURRENT ASSETS		<u>2,746,455</u>	<u>5,206,538</u>
TOTAL ASSETS		<u>4,923,102</u>	<u>14,956,101</u>
CURRENT LIABILITIES			
Trade and other payables		742,933	5,883,744
Short-term borrowings		-	-
TOTAL CURRENT LIABILITIES		<u>742,933</u>	<u>5,883,744</u>
NON-CURRENT LIABILITIES			
Long term borrowings		-	-
TOTAL NON-CURRENT LIABILITIES		<u>-</u>	<u>-</u>
TOTAL LIABILITIES		<u>742,933</u>	<u>5,883,744</u>
NET ASSETS		<u>4,180,169</u>	<u>9,072,357</u>
EQUITY			
Issued capital		10,582,604	10,582,604
Share option reserve		7,400	7,400
Foreign exchange reserve		(98,294)	-
Retained losses		(6,311,541)	(1,517,647)
TOTAL EQUITY		<u>4,180,169</u>	<u>9,072,357</u>

Notes to the financial statements are included on pages 9 to 12

AUSTIN EXPLORATION LTD
CONSOLIDATED INTERIM CASH FLOW STATEMENT
For the half year ended 31 December 2007

	Consolidated Entity	
	31 Dec 2007	31 Dec 2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	80,200	1,013,385
Payments to suppliers and employees	(4,399,374)	(660,847)
Interest received	83,123	179,784
Finance costs	-	-
	<hr/>	<hr/>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(4,236,051)	532,322
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration expenditure	(1,777,172)	(2,848,778)
Reductions in development expenditure	38,038	-
Joint venture contributions received	-	3,081,348
Other	(4,131)	-
	<hr/>	<hr/>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,743,265)	232,570
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)
	<hr/>	<hr/>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	-	9,209,506
Net increase/(decrease) in cash held	(5,979,316)	9,974,398
Cash at beginning of period	7,802,664	41,748
Foreign Currency movement	217,841	-
	<hr/>	<hr/>
Cash at end of period	2,041,189	10,016,146

Notes to the financial statements are included on pages 9 to 12

AUSTIN EXPLORATION LTD

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the half year ended 31 December 2007

	Issued Capital \$	Consolidated Entity Share Option Reserve \$	Foreign Currency Reserve \$	Retained Deficit \$	Total \$
BALANCE AT 1 JULY 2006	946,500	7,400	-	(67,200)	886,700
Shares issued during the period	10,485,625	-	-	-	10,485,625
Cost of capital raising (net of tax)	(849,521)	-	-	-	(849,521)
Loss attributable to the members of parent entity	-	-	-	(1,450,447)	(1,450,447)
BALANCE AT 30 June 2007	10,582,604	7,400	-	(1,517,647)	9,072,357
Shares issued during the period	-	-	-	-	-
Cost of capital raising (net of tax)	-	-	-	-	-
Loss attributable to the members of parent entity	-	-	-	(4,793,894)	(4,793,894)
Foreign Currency reserve	-	-	(98,294)	-	(98,294)
BALANCE AT 31 DECEMBER 2007	10,582,604	7,400	(98,294)	(6,311,541)	4,180,169

Notes to the financial statements are included on pages 9 to 12

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2007

NOTE 1 – BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2007 and any public announcements made by Austin Exploration Limited (the "Company") and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The accounting policies have been consistently applied by the entities in the consolidated group and are consistent with those in the June 2007 financial report.

The half-year report does not include full disclosure of the type normally included in an annual financial report.

The Company is a company domiciled in Australia. The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2007 is available at www.austinexploration.com.

Reporting Basis and Conventions

The half-year 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 basis of accounting has been applied.

NOTE 2 – REVENUES

	31 December 2007 \$	31 December 2006 \$
Sale of mining information	-	950,329
Sale of oil and gas	80,200	63,056
Interest received	83,124	179,784
Total	163,324	1,193,169

NOTE 3 – Impairment Charge

At December 31, 2007, the Directors' reviewed the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. For those prospects where the Directors believed such an indication existed at December 31, 2007, they compared the asset's fair value less costs to sell and value in use to the asset's carrying value. Where it was not possible to estimate the recoverable amount of an individual asset, the Directors' estimated the recoverable amount of the cash-generating unit to which the asset belongs.

Applying these principals to the Company's Development assets and to its Exploration and evaluation expenditure asset, at December 31, 2007 the Company recorded an impairment charge of \$3,828,323.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2007

NOTE 4 – Income Tax

In accordance with AASB 112 – Income Tax, the consolidated entity has written off its deferred tax asset at December 31, 2006 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 5 – SEGMENT REPORTING

Primary reporting – Business Segment

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

Half year ended December 31, 2007

Geographic segments

	Australia \$	USA \$
Total Revenue	57,254	106,070
Impairment charge	-	(3,828,323)
Depreciation and amortisation	(6,025)	(52,865)
Segment result	(229,009)	(4,564,885)
Income tax expense	-	-
Segment assets	2,262,579	2,660,523
Additions to non current assets	21,040	1,718,093
Segment liabilities	66,630	676,303

The Company does not have any differentiated business segments.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2007

Half year ended December 31, 2006

Geographic segments

	Australia	USA
	\$	\$
Total Revenue	179,784	1,013,385
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

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 6 – CONTINGENT LIABILITIES

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

NOTE 7 – EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to December 31, 2007, the Company entered into an agreement (the "Agreement") with Resource Energy Technologies, LLC, (RET) and has commenced a shallow well drilling schedule on a large RET gas project in the US state of Kentucky. The drill schedule is expected to deliver approximately 44 producing wells by the end of calendar year 2008 and 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.

As part of the funding program for this project, the company has entered into an AUD\$5m investment letter of intent with a private Australian based investment group.

It is proposed under the letter of intent that:

- non recourse funding will be provided against the security of anticipated cash flow from the Park City Gas Field on terms which entitles the investor to receive up to AUD\$10M over 3 years;
- the investor will receive 16,828,969 options to acquire shares in Austin Exploration at an exercise price of \$0.25 and with an exercise period of 3 years (which if fully exercised would raise additional capital for the Company of \$4,207,242.25);
- the members of the investment group will respectively receive an overriding royalty interest of 5% and 4.375%.

NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2007

The letter of intent is non binding and detailed agreements are to be negotiated.

The granting of the proposed overriding royalty interests will result in Austin Exploration holding a 56.25% net revenue interest.

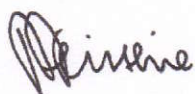
The initial 24 month drilling focus is within a proven production field that includes over 60 existing gas wells operated by RET that are currently being connected to a delivery pipeline owned by Atmos Energy and to a gas processing facility, operated by RET. This initial focus area encompasses approximately 8,000 acres 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 into an adjacent 25,000 acres of mineral leases on the same geologic structure is also now underway.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The Financial Statements and Notes, as set out on pages 5 to 12:
 - a) give a true and fair view of the economic entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
 - b) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations.
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 14th day of March 2008



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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF AUSTIN EXPLORATION LIMITED

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Austin Exploration Limited (the Company) and the entities it controlled (the consolidated entity), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, and other selected explanatory notes. The consolidated entity comprises both the Austin Exploration Limited (the Company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year 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 control relevant to the preparation and fair presentation of the half-year 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.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 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.



INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF AUSTIN EXPLORATION LIMITED (cont)

Auditor's responsibility (cont)

A review of a half-year 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 complied with the independence requirements of the Corporations Act 2001.

Conclusion

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

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date.
- b complying with Accounting Standard AASB 134: *Interim Financial Reporting* and Corporations Regulations 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed in Adelaide on this 14th day of March 2008