AUSTIN EXPLORATION LIMITED

A.B.N. 98 114 198 471

INTERIM FINANCIAL REPORT

HALF-YEAR ENDED 31 DECEMBER 2008

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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 2008.

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	Retired 7 February 2009
• Dr. James Michael Edwards	
• Neville Wayne Martin	Retired 28 July 2008
• David Max Schuette	
• Dominic Pellicano	Appointed Director 28 July 2008. Appointed Chairman 7 February 2009

Company Secretary

Graham A Seppelt was the Company Secretary during this period.

Review of Operations

THE MARKET – Significant worldwide economic difficulties surfaced in the latter half of 2008, with the expectation of more to come in 2009 as US oil and gas companies face what is seen by many to be the sharpest economic downturn in recent times.

With natural gas now selling for less than US$5 per mcf and oil prices below US$40 per barrel, energy companies all over the globe are eliminating exploration projects that six months ago would have easily produced a return on investment in a reasonable time frame. Natural gas projects in particular have been hit very hard. Many natural gas projects that were started during calendar year 2008 incurred "sunk cost" exploration and production expenses that anticipated market pricing to be above $7 and in many cases were hedged at prices above that.

A recent survey of 60 oil and gas producers and service company executives completed by The Oil and Gas Journal confirmed that the upstream oil and gas industry is in a "survival mode".

THE OPPORTUNITY - Austin Explorations Board of Directors and management team do not disagree with these assessments however we do believe that there are still opportunities available to grow the company. U.S. and Australian private capital investors remain available for the acquisition of existing revenue generating production projects, specifically oil production properties that are profitable at $40 per barrel.

These types of projects are becoming available as small and medium sized energy companies begin recapitalizing by generating cash from asset sales and by lowering or eliminating many operating expenses. The USA management team of Austin Exploration is actively pursuing these types of production assets and is working directly with acknowledged investors and lending institutions to develop a series of proposed partnership structures.

THE OUTLOOK – Coupled with a drilling schedule at the PEL105 licence and the available private capital for the acquisition of oil producing, cash flow positive, profitable properties; the outlook remains favourable but cautious.

A recent series of dramatic cuts in corporate operating expenses should also allow Austin to continue to operate effectively while it transitions its business infrastructure toward the acquisition of producing oil assets.

Existing exploration and production assets will continue to move forward individually at a pace that reflects the new realities of lower energy market pricing and the corresponding but lagging decrease in exploration and development expenses.

Principle Active Oil and Gas Assets

AUSTRALIA:

- *The PEL 105 licence area* has seen progress by the operator, Adelaide Energy Limited. The first well at this license is scheduled for drilling by Adelaide Energy in 2009. A noteworthy fault line was discovered in May 2008 and an additional seismic study has since been completed. This well has the potential to create significant cash flow and additional drilling opportunities for AKK.

- *The PEL 73 licence area* underwent a proprietary hydrocarbon study in September 2008 to assist with the possible identification of additional "hot spots" and drill site locations with the greatest potential for commercial production. The study results have been encouraging but further analysis remains.

U.S.A.

- *The Park City Natural Gas Project, Kentucky* encountered a series of delays associated with the operator's inability to complete and connect all of the Austin Exploration wells. In May 2008 Austin ordered a halt in drilling. This was the result of ongoing but unsuccessful meetings and discussions with the operator, Resource Energy Technologies, LLC ("RET"), designed to resolve issues related to field services and well reporting practices.

  In October 2008, Austin requested a US Federal Court to order RET to allow a full financial audit of their records. After a hearing on November 19th 2008, the Federal Court requested that both parties provide additional evidence regarding fiduciary responsibilities and reporting. Responses and an amended complaint by Austin were filed accordingly.

  RET subsequently filed a motion to have the case dismissed. The court ruled against RET in early February 2009 and the case is now moving toward closure. The company hopes to have the case resolved by the end of May however the timing is completely in the hands of the court.

- *The Moses Austin Project, Texas* has been suspended until natural gas prices rebound, a sale of the asset can occur or an additional partner willing to cover the initial exploration expense emerges.

- *The Polecat Creek Well, Texas* – The Polecat Creek well underwent a series of significant down-hole repairs and was followed with an acid stimulation procedure designed to increase daily production. Production rates have increased but are currently being maintained at lower levels until natural gas market prices reach $7 to $8 per mcf.

Carrying value of development and exploration assets

At December 31, 2008, 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.

The directors noted that the world economy had seen a drop in both oil and gas prices to the point where some of the company's assets could not produce oil and gas at economic value to the company in the short term.

The directors believe that the current prices for oil and gas are subject to movements both downwards and upwards and that economic sale prices may well be experienced in the medium future.

Applying these principles, the Company has not impaired its exploration or development assets at 31 December 2008 and will further review the assets for impairment at 30 June 2009.

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 2008: Provision of taxation services - $5,100

Auditor's Declaration

The lead 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, 2008.

Signed in accordance with a resolution of the Board of Directors

....

Dominic Pellicano
Director

Adelaide
Dated this 16th day of March 2009

Grant Thornton

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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 2008, 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 Wayville on this 16th day of March 2009

AUSTIN EXPLORATION LTD
CONSOLIDATED INTERIM INCOME STATEMENT
For the half year ended 31 December 2008

	Note	Consolidated Entity 31 Dec 2008 $	Consolidated Entity 31 Dec 2007 $
Revenues from ordinary activities	2	60,712	163,324
Expenses from ordinary activities			
Employee benefits expense		(425,092)	(336,222)
Depreciation and amortisation expense		(28,298)	(50,367)
Finance costs	3	(562,369)	-
Impairment charge		(601,594)	(3,828,323)
Travel and accommodation expenses		(116,512)	(135,208)
Lease operating expenses		(62,964)	(43,653)
Other expenses		(785,729)	(563,445)
		(2,582,558)	(4,957,218)
Loss before income tax expense		(2,521,846)	(4,793,894)
Income tax expense		-	-
Loss for the six months to December 31st		(2,521,846)	(4,793,894)
Loss attributable to members of the consolidated entity		(2,521,846)	(4,793,894)

	Cents	Cents
Basic loss per share	(2.07)	(4.27)

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 2008

	Note	Consolidated Entity 31 Dec 2008 $	 30 June 2008 $
CURRENT ASSETS			
Cash and cash equivalents		838,800	2,340,000
Trade and other receivables	5	232,444	40,948
Other current assets		64,165	38,768
TOTAL CURRENT ASSETS		1,135,409	2,419,716
NON-CURRENT ASSETS			
Financial assets		10,002	11,352
Property, plant and equipment		108,412	73,499
Development assets	3	3,885,474	2,753,973
Exploration and evaluation expenditure		1,320,330	957,968
TOTAL NON-CURRENT ASSETS		5,324,218	3,796,792
TOTAL ASSETS		6,459,627	6,216,508
CURRENT LIABILITIES			
Trade and other payables		203,315	240,251
Short-term borrowings	3	-	702,756
TOTAL CURRENT LIABILITIES		203,315	943,007
NON-CURRENT LIABILITIES			
Drilling Advances Repayable	3	4,068,406	1,773,897
TOTAL NON-CURRENT LIABILITIES		4,068,406	1,773,897
TOTAL LIABILITIES		4,271,721	2,716,904
NET ASSETS		2,187,906	3,499,604
EQUITY			
Issued capital	5	13,993,049	12,993,049
Share option reserve		55,492	55,492
Foreign exchange reserve		(84,830)	(294,978)
Retained losses		(11,775,805)	(9,253,959)
TOTAL EQUITY		2,187,906	3,499,604

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 2008

	Consolidated Entity	
	31 Dec 2008 $	**31 Dec 2007 $**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	38,487	80,200
Payments to suppliers and employees	(1,462,723)	(4,399,374)
Interest received	30,167	83,123
Finance costs	-	-
NET CASH USED IN OPERATING ACTIVITIES	(1,394,069)	(4,236,051)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration expenditure	(335,859)	(1,777,172)
Payments for development expenditure	(64,162)	-
Payments for property, plant and equipment	(39,428)	-
Joint venture contributions received	-	3,081,348
Other	-	(4,131)
NET CASH USED IN INVESTING ACTIVITIES	(439,449)	(1,743,265)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the Issue of Ordinary Shares	201,382	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	201,382	-
Net decrease in cash held	(1,632,136)	(5,979,316)
Cash at beginning of period	2,339,987	7,802,664
Foreign Currency movement	130,949	217,841
Cash at end of period	838,800	2,041,189

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 2008

	Consolidated Entity				
	Issued Capital $	Share Based Payments Reserve $	Foreign Currency Reserve $	Retained Deficit $	Total $
BALANCE AT 1 JULY 2007	10,582,604	7,400	-	(1,517,647)	9,072,357
Shares issued during the period	2,458,981	-	-	-	2,458,981
Transaction Costs (net of tax)	(48,536)	-	-	-	(48,536)
Options Reserve on recognition of options	-	48,092	-	-	48,092
Loss attributable to the members of parent entity	-	-	-	(7,736,312)	(7,736,312)
Foreign currency translation reserve	-	-	(294,978	-	(294,978)
BALANCE AT 30 June 2008	12,993,049	55,492	(294,978)	(9,253,959)	3,499,604
Shares issued during the period	1,000,000	-	-	-	1,000,000
Transaction costs (net of tax)	-	-	-	-	-
Loss attributable to the members of parent entity	-	-	-	(2,521,846)	(2,521,846)
Foreign currency translation reserve	-	-	210,148	-	210,148
BALANCE AT 31 DECEMBER 2008	13,993,049	55,492	(84,830)	(11,775,805)	2,187,906

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

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 2008 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 2008 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 2008 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.

Foreign Currency Translation

The half-year report has been prepared using the following currency conversion rates from US dollars to Australian dollars:

	Exchange Rate $AUD/US		
At 31 December 2008	1.4487	At 30 June 2008	1.0411
Av. 6 Months to 31 December 2008	1.3094	Av. 6 months to 31 December 2007	1.1530

NOTE 2 – REVENUES

	31 December 2008 $	**31 December 2007 $**
Sale of oil and gas	30,545	80,200
Interest received	30,167	83,124
Total	**60,712**	**163,324**

NOTE 3 – DEVELOPMENT ASSETS

At 31 December 2008 the company had development assets at Park City, Kentucky against which it is carrying a liability for the repayment of borrowings to fund the purchase of those assets.

The loans are non-recourse loans against the sale of oil and gas from the Park City gas field. Whilst there are no proceeds from the sale of oil and gas from the Park City wells, all of which have either oil or gas which is available for sale, the loans are not repayable.

NOTE 4 –IMPAIRMENT CHARGE

At December 31, 2008, the Directors' reviewed the carrying values of its development and exploration 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, 2008, 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.

The directors noted that the world economy had seen a drop in both oil and gas prices to the point where some of the company's assets could not produce oil and gas at economic value to the company in the short term. The directors believe that the current prices for oil and gas are subject to movements both downwards and upwards and that economic sale prices may well be experienced in the medium future. Applying these principles, the Company has not impaired its exploration or development assets at 31 December 2008 and will further review the assets for impairment at 30 June 2009.

NOTE 5 – CAPITAL RAISING

During the period, 5,000,000 shares were issued at $0.20 per share with payment terms as follows:

First Tranche: $200,000 paid on 4 November 2008.

Final Tranche: $800,000 on or before 3 December 2008.

Capital raised from this issue is for a nominated development project but which has been suspended because of the low current oil and gas prices. The final tranche is not expected to be contributed until the specific project is undertaken when economic conditions return to normal.

NOTE 6 – 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, 2008
Geographic segments

	Australia $	USA $
Total Revenue	28,481	32,231
Impairment charge	-	-
Depreciation and amortisation	(6,025)	(22,273)
Segment result	(187,849)	(1,732402)
Income tax expense	-	-
Segment assets	2,245,331	4,815,890
Additions to non current assets	86,691	352,758
Segment liabilities	118,667	4,153,054

The Company does not have any differentiated business segments.

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

Accounting policies

Segment revenues and expenses are those directly attributable to the segments and include any expenses where a reasonable basis for allocation exists. Segment assets include all assets used by the segment and consist principally of cash, receivables, and property, plant and equipment and accumulated depreciation and amortisation. Whilst most assets can be directly attributable to the segments on a reasonable basis, 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 payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Intersegment transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

NOTE 7 – CONTINGENT LIABILITIES

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

NOTE 8 – GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the basis of a going concern. The company will require additional capital for the continued development of its existing projects and working capital. The directors are in consultation with the company's advisers and are evaluating the possible means to raise the required equity.

The Company's ability to continue as a going concern is contingent upon successfully raising additional capital. If additional funds are not raised, the going concern basis may not be appropriate, with the result that the Consolidated Group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

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 2008 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.

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Dominic Pellicano
Director

Adelaide

Dated this 16th day of March 2009

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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 consolidated entity, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration. The consolidated entity comprises both the Company and the entities it controlled at the half-year's end or from time to time during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company 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 consolidated 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 and Other Financial Reports 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 2008 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.

GrantThornton

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

Auditor's responsibility Cont

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 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 Austin Exploration Limited's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our review conclusion attention is drawn to Note 8 – Economic Dependency to the Interim Financial Report. The financial report has been prepared on the basis of a going concern. The company will require additional capital for the continued development of its existing projects and working capital.

The Company's ability to continue as a going concern is contingent upon successfully raising additional capital. If additional funds are not raised, the going concern basis may not be appropriate, with the result that the Company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in the interim financial report. No allowance for such circumstances has been made in the financial report.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

S J Gray
Partner

Signed at Wayville on this 16th day of March 2009