AUSTIN EXPLORATION LIMITED

ABN 35 116 249 060

Second Quarter Report

FY2009

For the Period Ended

December 31, 2008

+ See chapter 19 for defined terms.

Open Letter to Our Shareholders

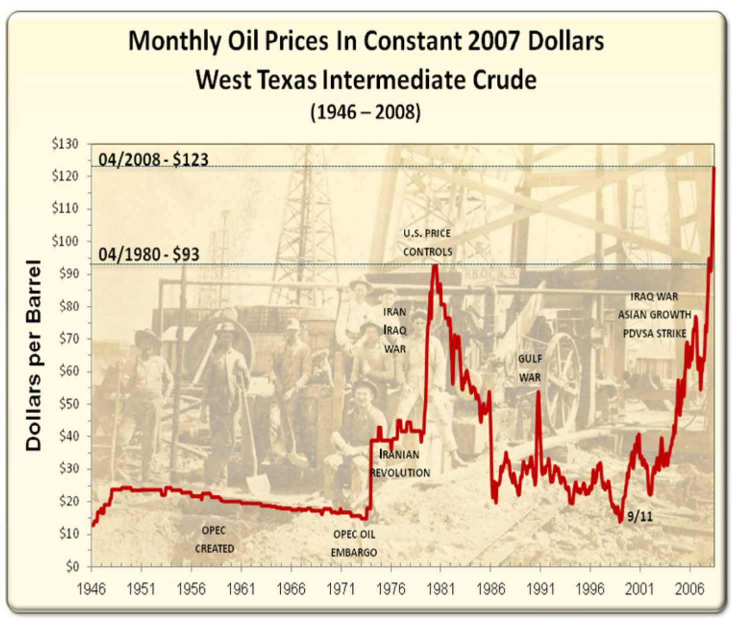
By David Max Schuette, Managing Director, Austin Exploration

The recent rapid decline of worldwide energy prices has made this current financial quarter one of significant reflection and review for me, the members of our board, and our management team.

In July 2006, our company was officially listed on the ASX with an exclusive focus on oil and gas exploration. During this past year we began redirecting Austin's focus toward a more balanced portfolio of exploration projects combined with "known resource" plays such as shale. Our desire to participate in these resource plays began with the acquisition of the Park City project and followed with more recent acquisitions at the Moses Austin project.

Today we find ourselves in a financial marketplace that has taken some of the most respected oil and gas companies in the United States into market valuation territory that just 12 months ago no economists would have considered possible.

Natural gas and crude oil prices have experienced a precipitous drop over the past six months, falling more than 50% and 72% respectively to less than $6 per mcf for natural gas and approximately $40 per barrel of oil.



Source: U.S. Federal Reserve, Series: OILPRICE
U.S. Department of Energy, Inflators to Constant Dollars Various Years

Many large shale resource plays such as the Barnett, Haynesville, Fayetteville, Woodford and New Albany that were drilled in the past 18 months are now not capable of producing the profits needed to justify the continued drilling that is essential to offset the 30% plus annual production decline rates and the 10-16% annual expenses associated with well operations and maintenance.

Turning off production in anticipation of a future price correction is now commonplace in the U.S. natural gas market.

All of these sudden market changes hold both bad and good news for a developing company like

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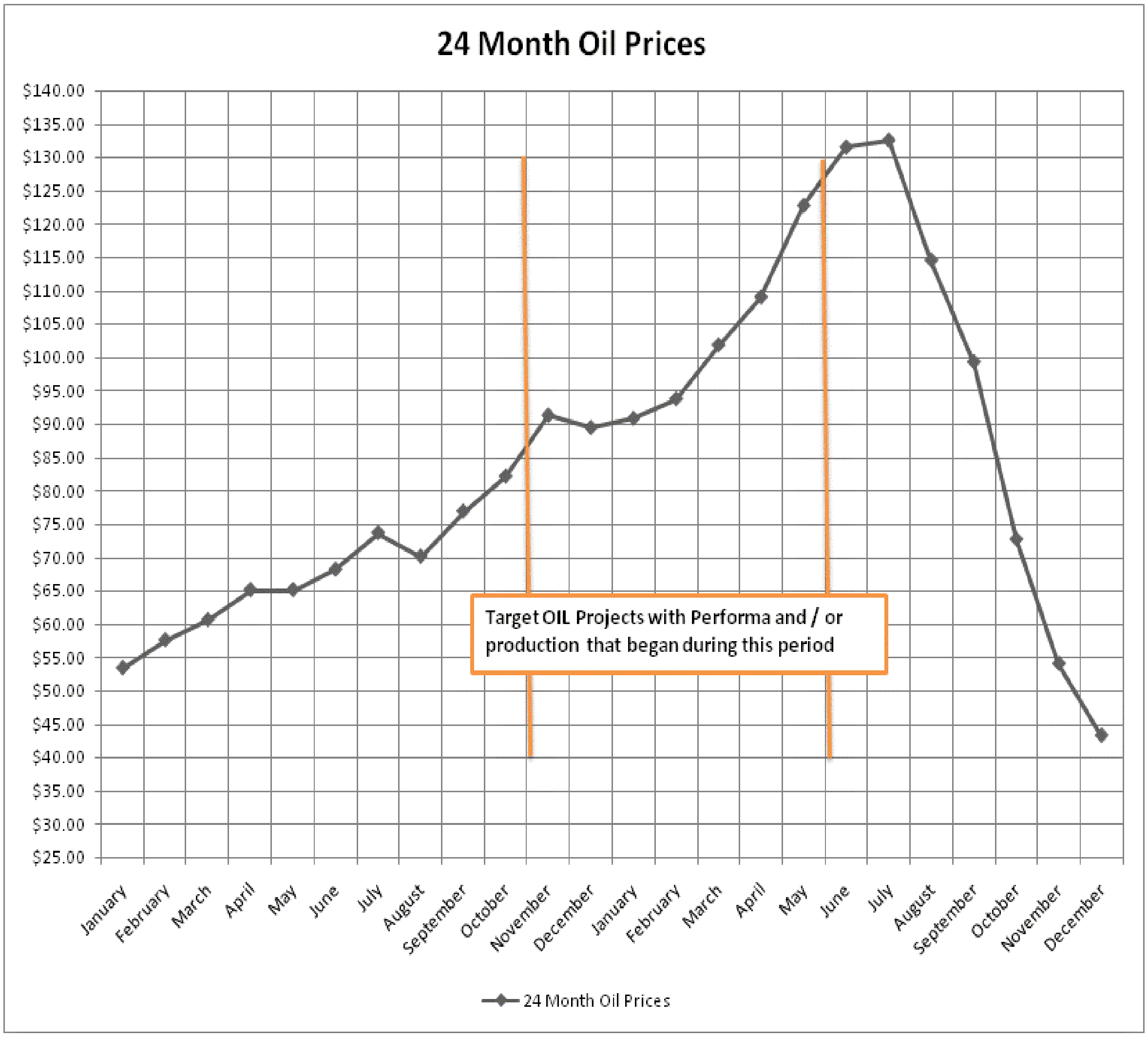
ours.

The bad news is simple. Companies holding exploration and resource plays based on October 2007 through June 2008 energy prices now see those same resources under performing by as much as 100% below their original production forecasts.



The good news is also quite simple, and it involves the creation of new opportunities. In an effort to balance their financial portfolios, scores of oil and gas companies and their lenders are now shedding many of their under-performing assets – making them available at significantly discounted rates. Companies that have cash in hand or have the ability to raise it rapidly will benefit immediately by acquiring these long-life producing properties for a fraction of their former market value.

Another example of the negative consequences of holding several devalued assets can be found by analysing the credit rating impact.

A drop in a company's value directly impacts upon that company's ability to find credit and maintain the credit they previously had.

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Fortunately for Austin Exploration, we have never taken on institutional debt. However, we have seen a devaluation of our Park City project create negative share price consequences for our company.

As we move into calendar year 2009, we have begun to develop investment and partnership funds designed to acquire currently producing oil and gas properties here in the United States. We will leverage our executive team's 30 plus years of noteworthy capital-raising experience and our extensive industry network of contacts to achieve this plan. Investment groups have been identified and several properties are currently being evaluated for potential purchase.

Our 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.

A very similar energy price environment existed from 1981 to 1991, when a handful of Houston, Texas-based oil and gas executives, including myself, were able to build several new companies with individual values exceeding $1 billion. I believe that the methods and tools we used during that energy downturn are now ripe for redeployment.

I am excited about the opportunities that lie before us through the potential acquisition of new production assets for our company.

However, with the enduring instability of the current economic climate, your board has reviewed its current expenditure levels and has taken steps to limit the amount of non-essential expenditures until financial conditions improve. I will make every effort to ensure that you are kept informed of all new developments at Austin Exploration as they occur.

Thank you for your continued support.

David M. Schuette

David M. Schuette

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

1. **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.

2. As previously announced, the **Park City project** has 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 by January 7th 2009. Responses and an amended complaint by Austin were filed accordingly. Austin is awaiting a new court date from the ruling judge.

3. **The Moses Austin Project** area currently has four well sites identified. The company is examining opportunities for the acquisition of additional mineral rights and well locations.

Austin is currently working with the operator to re-bid the drilling and completion services for the first ODC #4 well. Although these service expenses typically lag behind the decrease in energy prices, the company does believe that the $975,000 original AFE can be reduced.

An additional review of the targeted formations will also be required. Sub $6 per mcf market prices will require that daily gas production maintains higher volumes than initially forecast.

Australian Assets

1. **The PEL105 licence** has seen significant progress by the operator, Adelaide Energy Limited. A noteworthy fault line was discovered in May 2008 and an additional seismic study has since been completed. Drilling is expected to commence during 2009.

2. A portion of the **PEL73 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 and further analysis is currently underway to pinpoint a possible next drill site.

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DEVELOPMENTS AT PRINCIPAL OIL AND GAS PROJECTS

PARK CITY GAS PROJECT (State of Kentucky, USA)

The initial company focus area encompasses approximately 8,000 acres located in Park City, Kentucky. Exploration has to date focused on the New Albany Shale and Fort Payne Limestone formations. An expansion into an adjacent 25,000 acres of mineral leases on the same geologic structure has also been mooted.

To date 18 wells have been drilled. New Albany shale formations of adequate thickness to produce gas are present in all of these wells. One well 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 by Austin Exploration of each well's 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.

In May 2008, Austin ordered a halt in its drilling program. This was the result of ongoing but unsuccessful meetings and discussions with the operator, 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 by January 7th 2009. Responses and an amended complaint by Austin were filed accordingly. Austin is currently awaiting a new court date from the ruling judge.

Atmos Gathering Company recently notified Austin Exploration that they intend to replace RET as the operator of their facility and that negotiations to do so are underway. Atmos is also working to design a system for more equitably sharing the operating expenses of its gas processing plant, which are passed onto the interest holders of producing Park City wells at the point of sale.

A thorough review by Austin Exploration's financial team has determined that this project's economic viability can only be achieved through a combination of downward Atmos expense allocations and an increase above $9 per mcf in the market price for natural gas. Given the inability of the operator to complete the Austin wells, coupled with the recent dramatic decline in gas prices, the project's original five-phase 200-well drilling program with a 2011 target date will not be achieved.

The company maintains an undivided 75% Working Interest and a 65.625% Net Revenue Interest in every well it drills at Park City.

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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. On July 31st 2008, Austin acquired 731.88 acres (2.96 km²), the Rhodes family lease, located inside the Giddings Field – one of the most productive oil and gas fields in the United States.

This acquisition was followed in November 2008 by an additional 160 acre mineral lease unit located within the same field. Three wells, named ODC#2, #4 and #6, already exist on this lease. Since March 1981, these wells have cumulatively produced 175,024 barrels of oil and 5.766 BCF (billion cubic feet) of natural gas from the Austin Chalk formation.

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 to 1.5 MMCF of gas per day from the Georgetown formation.

The company has contracted with Bruington Operating, LLC to be the operator of record for all drilling programs in this project area.

Austin is currently working with the operator to re-bid the drilling and completion services for the first ODC #4 well. Although these service expenses typically lag behind the decrease in energy prices, the company is confident that the $975,000 original AFE can be reduced.

An additional review of the targeted formations will also be required. Sub $6 per mcf natural gas market prices will require that daily gas production maintains higher volumes than initially forecast.

The two leases acquired by the company are 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.

For the Rhodes family lease, 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 lease. For the ODC wells lease, Austin has a net 62.5% NRI.

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

Polecat Creek, in Falls County, Texas, was the first prospect drilled by the company, at the beginning of calendar 2007.

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 3,000-foot 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.

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The Polecat Creek well was producing naturally and prior to October 2008 had never been stimulated.

The well has since undergone a series of significant down-hole repairs, followed by an acid stimulation procedure designed to increase daily production. Production rates have increased significantly, but are currently being maintained at lower levels until natural gas market prices achieve $7 to $8 per mcf.

Austin maintains a 26.25% NRI in this well.

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

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

A portion of the PEL73 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 require further analysis and preparatory work to be done. The company continues to anticipate that drilling will be possible during calendar 2009.

Austin maintains a 16.666% Working Interest in 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 square kilometres, located approximately 60 kilometres north of Moomba in South Australia.

The prospect is surrounded by producing oil and gas 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).

Austin owns 100% of the PEL 105 licence. As the result of an October 10th 2007 farm-in agreement, Austin and Adelaide Energy (ASX: "ADE") have been working together to locate the first drill site for the respective companies on the licence. The farm-in agreement names Adelaide Energy as the official operator and the company has a right to earn 50% of Austin's 100% interest by funding the first well through to completion in 2009.

In May 2008, 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 estimated possible reserves (P10) of up to 6,200 MMscf (6.2 billion cubic feet) of gas and 1,040 kstb (1.04 million barrels) of oil/condensate.

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

In October 2008, Adelaide Energy carried out a 2D seismic survey and identified a new hydrocarbon trap location. Well planning is now underway. A drilling rig with availability in 2009 has been tentatively queued, and drilling may start in the second quarter of 2009.

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	100.00%	100.00%	A Farmin agreement provides Adelaide Energy Limited the opportunity to earn a 50% NRI after the first well is completed. Drilling is anticipated for mid CY2009
PEL 73 Oil and Gas Licence	Stansbury Basin, South Australia	16.670%	12.500%	Proprietary "Direct Hydrocarbon Sensing and Detection" study was completed in October 2008. The company hopes to drill this prospect in CY2009
Park City Gas Field	Kentucky, USA	75.000%	65.625% for wells drilled for AKK and 33.33% for wells acquired by AKK	18 wells currently drilled
Moses Austin Project				
The Rhodes Family Lease	Texas, USA	70.000%	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
The ODC #4, #6 and #2	Texas, USA	100.000%	62.500%	A three well recompletion project with NRI distribution of: Mineral owner 25.00% R & S Lease Holder 12.50% AKK Net Revenue Interest 62.5%
Polecat Creek Well	Texas, USA	35.000%	26.250%	Located in Texas and originally drilled in 2007. The well was recently recompleted with an Acid stimulation procedure and has seen a significant daily production increase.

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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 2008

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter $A	Year to date (.6. months) $A
1.1	Receipts from product sales and related debtors	45,173	45,173
1.2	Payments for (a) exploration and Evaluation		
	(b) development		
	(c) production	(29,703)	(61,458)
	(d) administration	(655,078)	(1,401,264)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	6,300	30,167
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	(633,308)	(1,387,382)
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects		(336,738)
	(b)development		(64,162)
	(c)equity investments		
	(d)other fixed assets		(39,428)
1.9	Proceeds from sale of: (a)prospects		
	(b)equity investments		
	(c)other fixed assets	2,815	2,815
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other (provide details if material) Deposit		(1,936)
	Net investing cash flows	2,815	(439,449)
1.13	Total operating and investing cash flows (carried forward)	(630,493)	(1,826,831)

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1.13	Total operating and investing cash flows (brought forward)	(630,493)	(1,826,831)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	201,382	201,382
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	201,382	201,382
	Net increase (decrease) in cash held	(429,111)	(1,625,449)
1.20	Cash at beginning of quarter/year to date	1,271,358	2,340,001
1.21	Exchange rate adjustments to item 1.20	(3,447)	124,248
1.22	Cash at end of quarter	$838,800	$838,800

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	78,000
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

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	Amount used $A
3.1	Loan facilities	2,943,742	2,943,742

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3.2	Credit standby arrangements		

Estimated cash outflows for next quarter

		$A
4.1	Exploration and evaluation	150,000
4.2	Development	
4.3	Production	
4.4	Administration	100,000
	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	Previous quarter $A
5.1	Cash on hand and at bank	838,800	1,271,358
5.2	Deposits at call		
5.3	Bank overdraft		
5.4	Other (provide details)		
	Total: cash at end of quarter (item 1.22)	838,800	1,271,358

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				

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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 *(description)*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	5,000,000	5,000,000		
7.3	+Ordinary securities	125,125,859	125,125,859		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	+Convertible debt securities (*description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** (description and conversion factor)	5,400,000 "2011 A Class Options" 12,600,000 "2011 B Class Options" 12,600,000 "2011 C Class Options" 541,667 "2012 D Class Options		Exercise price $.30 $.50 $.75 $.24	Expiry date 30 June 2011 30 June 2011 30 June 2011 28 February 2013
7.8	Issued during quarter				
7.9	Exercised during quarter				

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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: 30 January 2009

(Director)

Print name: David M Schuette, Managing Director & CEO

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