

2. Managing Director's Review of Activities

Year in Review

AusTex Oil Limited was incorporated in March 2006 and was admitted to the official list of the Australian Securities Exchange on 8 January 2008. The Company balance date is 31 March and this report covers the year ended 31 March 2009. This year is the first full year of operations since listing on the ASX. Total revenue from operations for the year was \$629,723 which resulted in a gross profit for the year of \$235,611. A net loss for the year of \$5,131,461 was incurred.

2.1. Oklahoma Operations

AusTex Oil Limited owns and operates a number of oil and gas leases in Oklahoma through its wholly owned subsidiary, International Energy Corporation (Oklahoma) (IEC-OK). The company now has six operational lease groups near the city of Tulsa and is the operator on five of the leases. The BlueHawk Lease located in Osage County is operated by BlueHawk Properties Inc.



Figure 2 Location of Oklahoma Leases

Lancaster Leases – Tulsa County – 610 acres

AOK – 100% Working Interest (WI) ;> 81.25% Net Revenue Interest (NRI)

During the fiscal year four new wells were completed for production. First gas sales were made following the commissioning of the gas sales line in late March 2009. Initial gas sales are from the Lancaster #3 Well, which was originally drilled in 1993 and the Lancaster #1A Well which was drilled by AusTex last year.

Additional acreage adjoining the original lease was acquired bringing the total lease area to 610 acres.

A shallow low-cost infill drilling program is currently being evaluated with a view to leverage the investment in the low pressure gas sales line. The wells targeting the Tanaha Formation at 2,000 feet may be drilled using a compressed air drilling rig. Estimated completion cost per well is US\$180,000. Analysis of seismic and well data indicates a number of prospective shallow targets on the 610 acre

group. The Lancaster #1A Well is completed for production in the Tanaha Formation and is producing oil and gas.

Sweet Lease – Pawnee County

AOK – 100% WI; 82.5% NRI

The Sweet #4A and #5A wells were drilled during the year and were completed in the Mississippi Limestone using the Radial Jet Enhancement rig. Initial oil production of 16 BOPD and 22 BOPD respectively was achieved from the two wells. Further stimulation of the Mississippi Formation is being evaluated and additional zones behind the pipe are planned to be perforated to enable higher combined production levels.

BlueHawk Lease – Osage County – 160 acres

AOK – 50% WI; 42.5% NRI

Quarrels 11-2 Well – Completed for Gas Production

During the year, the Company acquired a 50% interest in this property and participated in the drilling of the Quarrels 11-2 Well. During the December quarter, Scissortail Energy LLC tested the gas at the well head at 305Mcf per day from the Upper Bartlesville Formation and an agreement was finalised to access gas sales infrastructure. Construction of the 10,500 foot pipeline has now been completed and first gas sales were made during June Quarter 2009. Some delays were experienced obtaining right of way permits and the Bureau of Indian Affairs is assisting the operator expedite construction.

AusTex is considering further shallow wells on this project targeting oil and gas in the Bartlesville and Arbuckle formations.

Winganon and Glen Evans Leases

Following an engineering review of the Winganon 220 acre Lease group and the Glen Evans 80 acre Lease, a decision was made not to renew leases rather than initiate water flood projects with limited potential and requiring excessive manpower. This decision was also made as a result of the expected cost of rehabilitation of existing wells and infrastructure.

2.2. Kansas Operations

AusTex Oil Limited holds interests in oil and gas leases located in the State of Kansas through a wholly owned Kansas subsidiary International Energy Corporation (Kansas). IEC Kansas now holds interests in four projects located in Ness, Sheridan, and Ellis counties.



Figure 3 Location of Kansas Leases

The Company is the major working interest partner with Castle Resources Inc., as operator, a private oil and gas operator based near Hays, Kansas. Castle Resources operates the Radial Jet Enhancement Technology in the States of Kansas and Nebraska under a similar agreement to that IEC Oklahoma has with Well Enhancement Services, Texas.

Cooper Project - Sheridan County - 26,500 acres

AOK -50% WI ;42.25% NRI

During the year additional acreage was leased to increase the total project area to 26,500 acres. A 3D seismic acquisition program was also completed during the year. A geological and geophysical review of seismic and well data on the 26,500 acre project has been ongoing since the completion of the seismic shoot by Lockhart Geophysical. The initial interpretation of the complete 26,500 acre 3D seismic survey was reviewed. It showed 42 closures at the level of the mid-Permian Stone Corral Formation. Some progress was made on reconstruction of the growth history of the underlying Lansing-Kansas City Formation which is the prime target and produces much of the oil found in Kansas.

A semi-regional well database has been developed which, combined with seismic and potential field gravity-magnetic data, will provide the foundation for studies of favourable porosity trends for future drilling.

Over the course of the year, six wells were drilled on the project, with only one well being completed as a commercial producer. Two additional wells were drilled during June Quarter 2009 with both being plugged and abandoned with to non-commercial oil shows.

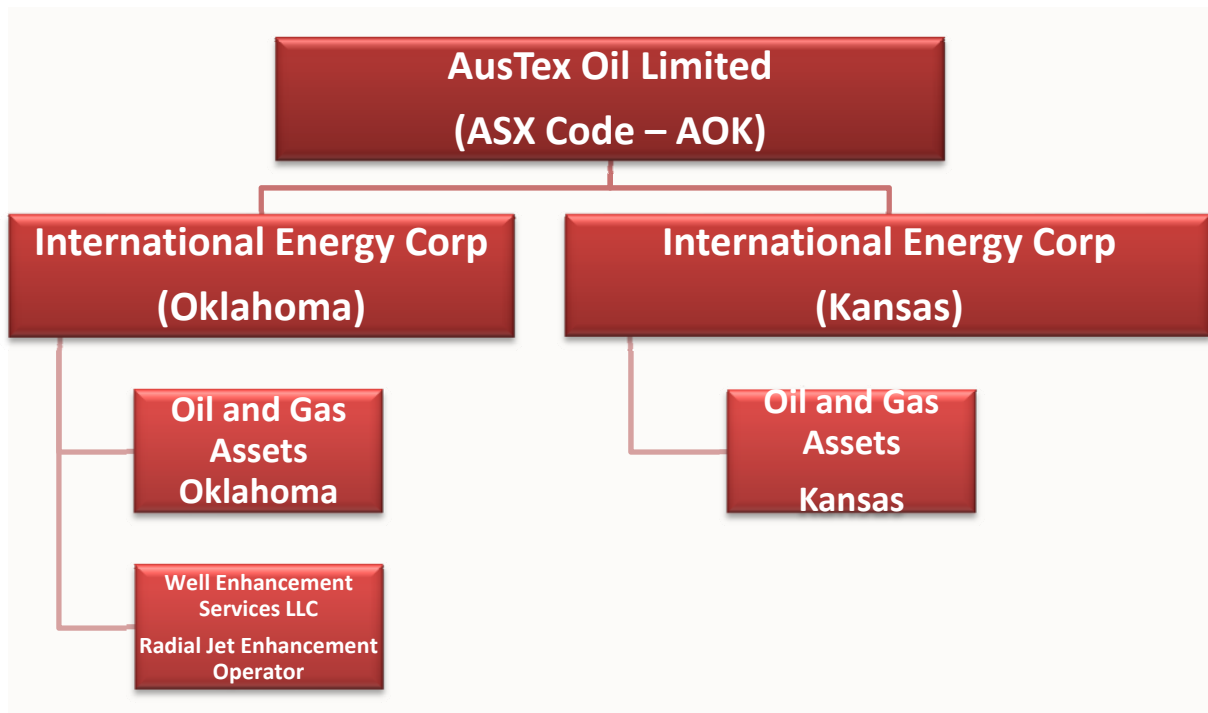
McCracken Project – Ness County – 3,200 Acres

AOK 50% WI; 42.25% NRI

In January 2009 the first well on the project was drilled by Murfin Drilling Company. The Billie #1 Well was drilled to a total depth of 4,225 feet and intersected the target Cherokee Sand at 4,105 feet. A drill stem test recovered a small amount of oil, which was deemed to be non-commercial and the well was plugged and abandoned.

A geologic and geophysical review is being conducted using the well data from the Billie #1 well and 3D seismic previously acquired on the project.

2.3. Company Structure



2.4 Options Exercised

During the reporting period, 3 million unlisted options issued prior to listing were exercised at a price of 15 cents.

2.5 The Future

AusTex is focused on increasing production from existing leases by drilling further development wells in Oklahoma and continuing the exploration projects in Kansas. The company is also examining opportunities to increase its interest in oil and gas leases onshore USA under commercially attractive terms.

Daniel Lanskey
 Managing Director
 20 July 2009