AUSTIN EXPLORATION LIMITED

3 January 2007

USA Office
111 Congress Ave, 4th Floor
Austin Texas 78701
United States of America
T +1 512 391 3803
F +1 512 532 0595
M +1 903 245 5732

Australian Offices
Level 50, 120 Collins Street
Melbourne 3000
Victoria
T +61 3 9225 5295
F +61 3 8648 5646
M +61 406 608 933

Level 1, 67 Greenhill Road
Wayville 5034
South Australia

info@austinexploration.com.au
www.austinexploration.com.au
ACN 114 198 471

The Company Announcements Office
Australian Stock Exchange Limited
Electronic Lodgement System

Dear Fellow Austin Exploration, Limited Shareholders,

Austin Exploration Limited announces two new US oil and gas prospects

and new A$11.5 million financing to deliver a "no cost" drilling program

The Directors of Austin Exploration Limited (ASX code: AKK) are pleased to announce significant developments in the Company's quest to further develop its portfolio of producing and drill-ready prospects in the United States and Australia, to enhance shareholder value.

Austin has arranged for an additional A$11,502,000 of capital (based on an exchange rate of AUD$1 equals 78.92 US cents) from a commercial transaction with no share holder dilution. This additional capital is denominated in US dollars and therefore creates no foreign exchange exposure for the Company.

The transaction will finance the development and drilling of three prospects in the US at no cost to Austin. Participants in the transaction have been identified as a source of capital with an ongoing appetite for participation in prospects Austin may generate. In addition, the Company has also significantly reduced the cost exposure associated with two existing prospects in the face of increased exploration industry costs both in Australia and the United States. The basis of this financing is a standard oil and gas industry "2 for 1 promote" where an incoming investor pays twice the cost associated with the working interest to be acquired in return for acquiring an interest in an identified prospect.

Change in Interest in Existing Petroleum Prospects /Acquisition of Additional Oil & Gas assets

St. Gabriel I – United States

As noted in our Prospectus, Austin held the entitlement to an 80% working interest in the St. Gabriel prospect in Louisiana after paying 100% of the first well costs. The St Gabriel 1 prospect has a potential recoverable resource range from a low case of 1.82 million barrels of oil and 13.6 billion cubic feet of gas to a high case of 5 million barrels of oil and 36 billion cubic feet of gas based on independent geological assessment.

Based on our most recent estimates, the drilling cost for St Gabriel 1 is $5,135,000, reflecting a significant increase over our initial estimate of $3,459,000. This increase is reflective of across the board increased costs in the United States for the oil & gas exploration industry as a whole.

In order to mitigate Austin's exposure to this drill cost increase, the Company has sold a total 20% working interest to two parties which, after payout, will each hold a 10% working interest and a 7.425% net revenue interest in the prospect. These two parties are Verus Limited, an Australian listed company, and an Australian private investment group.

In total, the two groups have paid for their working interests, $4,031,000 plus contingencies together with sunk costs incurred and value created by Austin. The impact of this on the Company is to reduce its cost only exposure in the St Gabriel-1 prospect by half.

At the same time, Austin has been offered the opportunity to acquire a further 5% working interest in this prospect from its prospectus partner, Rio Bravo, which holds an entitlement to the 20%, not held by Austin. Austin is in the process of concluding acquisition of this interest for $633,500.

The net outcome of the two transactions will be a 15% reduction in Austin's working interest in return for a cost reduction of at least 50% on its well drilling commitments for St Gabriel-1. It should be noted that the ability to sell this interest on the terms described is reflective of the quality of the prospect while Austin's ability to acquire the additional 5% interest from Rio Bravo on different commercial terms, is reflective of the long-term relationship with Rio Bravo and our early commitment to this prospect.

St. Gabriel II

As we announced on 31 July 2006, Austin has concluded arrangements to secure an entitlement to an 80% working interest in St Gabriel II (immediately north of St Gabriel 1) on the basis that we will pay 100% of the costs to develop production to receive 100% of the net revenue until the investment is recouped. Thereafter net revenue and costs will be split 80/20 between Austin and its partner.

The St Gabriel II prospect represents gas under pipe and has a development resource potential of 8 billion cubic feet of gas and 250,000 barrels of oil recoverable from three zones. This resource was determined based on electric log analysis, drill stem and production tests conducted by Shell Oil Company of the existing well.

The St. Gabriel II prospect was not included in Austin's IPO fundraising and in order to proceed with drilling this well while not calling on its shareholders, the Company is proposing to sell a 40% working interest to the parties previously described above.

The Australian private investment group has committed to its share of the transaction representing a 20% working interest and Verus has agreed to proceed, subject to due diligence anticipated to be concluded within the next 21 days.

The net outcome of this for Austin is that it will hold a 40% working interest and 30% net revenue interest in St Gabriel II and have a no cost "carried interest" for drilling of this prospect.

Jeter Branch

Jeter Branch is a prospect introduced to the Company by a group with significant experience in the oil and gas industry and well known to Austin management. We have been offered the opportunity to acquire a 30% working interest in this prospect as a result of our relationship.

Jeter Branch Prospect is located in Caddo County, Louisiana, US and is designed to test Middle and Upper Cretaceous reservoirs down to 5450 feet. The well is substantiated by good subsurface control and two 2-D seismic lines. The prospect is surrounded by production less than 2 miles away and the drill site is a high, dry, land location. Gas pipelines are located approximately 7000 feet from the well location. The estimated cost of the well is $1,742,000 and the estimated potential reserve is 2.1 billion cubic feet of gas and 136,000 barrels of oil.

Again the Company was not funded for this prospect in the IPO and as a result, the Australian private investment group has committed to take a 15% working interest so that Austin will acquire a no cost "carried interest" in drilling this prospect, retaining a 15% working interest and an 11.1% net revenue interest.

South West Edwards

South West Edwards is another quality prospect in which Austin has been offered the opportunity to acquire a 50% working interest.

The SW Edwards Prospect is located in Hinds County, Mississippi, US and is on trend with excellent production from several Upper Cretaceous reservoirs. The prospect is substantiated by subsurface control, 2-D seismic lines, and a 3-D seismic survey and will involve re-entering a previously drilled well and sidetracking 600-800 feet northwest. The well is designed to test apparent logged pay in two Rodessa Sands at a total depth of 13,250 feet. The estimated total cost of the well is $3,338,000 and the estimated potential reserve from the project is 2.86 billion cubic feet of gas and 1,096,000 barrels of oil.

The Company has been able to sell down its interest in this prospect in a manner similar to that described in St Gabriel II above with the Australian private investment group committing to its 12.5% interest and Verus committing to its 12.5%, , subject to due diligence. Again we anticipate the due diligence process to take no more than 21 days.

On finalisation of these arrangements, Austin will be entitled to a 25% working interest and a 19% net revenue interest with a no drilling cost "carried interest".

Both the Australian private investment group and Verus have expressed an ongoing desire to participate in any further prospects in which Austin may be entitled to, participate in, under the existing agreements relating to the above regions and we have committed to doing so.

Summary

From the aforementioned events, Austin has further demonstrated commitment to our stated objective of developing a portfolio of drill ready prospects close to infrastructure to enable early cash flows and increase in shareholder value. These commercial achievements have been a watershed in the Company's development.

India

Austin's Board has determined that it will not pursue opportunities in India at this time, or ,in the foreseeable future.

Anticipated Drilling of our Prospects

St Gabriel I

We have entered into contract with the Grey Wolf Group which has advised that it expects its rig to arrive on site in the second half of January so drilling should commence by the end of this month.

St Gabriel II

We anticipate drilling of the St Gabriel II prospect to commence early in February and are currently in negotiation to obtain a workover rig to undertake this re-entry.

Jeter Branch

A rig has been booked and will commence drilling in early February.

South West Edwards

Drilling is anticipated to commence in mid April.

PEL 73 - Australia

A significant amount of work has been undertaken on Austin's PEL 73 prospect at the southern end of South Australia's Yorke Peninsula. A Letter of Intent has been signed with a drilling contractor, Hunt Energy & Mineral Co. and a number of other major service contractors identified and in negotiation .We anticipate drilling to commence by the third week of March. Given the level of activity within the industry, there has been a significant increase in cost and as a result the Company has paid $1.375 million to cover its share of the costs associated with drilling this prospect against a budgeted figure of $700,000. The contractor has advised that he is working to reduce costs and we have seen some positive preliminary results from this effort.

Update on Polecat Creek Field - Texas

Positive results continue to emerge from our Polecat Creek prospect in Texas with current production indicating that Austin's high case of 180 million cubic feet of gas and 180,000 barrels of oil is likely to be achieved. We will provide a more detailed assessment once management has been able to analyse all the information available and have a better sample of production patterns.

Since Austin's mid-year listing in 2006 on the ASX, it has been an eventful and very active period for the Company with significant progress being made on our initial prospects and the identification of three new prospects combined with the capacity to develop them. As you can see from our drilling program, the next few months will be no less eventful. We are excited by the opportunity to bring our plans to fruition and deliver value to our shareholders. The platform we are establishing will present us with an increasing number of opportunities and further enhance shareholder value.

Yours faithfully

AUSTIN EXPLORATION LIMITED

David Max Schuette

Managing Director