



Listed on the Australian Securities Exchange ("AKK") and the OTC-QX International in the USA (AUN-XY)
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First Quarter Report FY2013

**For the three months ended
September 30, 2012**

OVERVIEW OF OPERATIONS AND ACTIVITIES

Austin Exploration Limited (“Austin” or “the Company”) (ASX:AKK) maintains working interests and net revenue interests in five proven oil and gas provinces in the United States and Australia.

During the last quarter the Company significantly advanced its 500-squared program, progressing an aggressive multi-state drilling program in Colorado, Texas, Mississippi, Kentucky and continuing to reduce non-essential operating costs.

Highlights

- Net oil production for the Company’s US based subsidiary, AusCo Petroleum Inc, has doubled to 110 barrels of oil equivalent per day
- Austin’s first Pathfinder well in Fremont County Colorado successfully drilled to a target depth of 9870 ft including a 4100ft (approx) horizontal well in to the Niobrara formation. The logs indicate a high potential for commercial oil production. A 16 stage frac is expected to begin late October/Early November.
- The Company successfully drilled its third well at its Texas Birch project. The Birch #3 well was drilled to a total measured depth (MD) of 13,213 ft including a 4000 foot horizontal leg into the Austin Chalk formation. The well demonstrated significant oil and gas shows whilst drilling the horizontal leg of the well. The well produced gas at an initial production rate of 800,000 Scf p/d. Due to the highly porous nature of the Austin Chalk formation, the well is returning the drilling fluids that were used to drill this well. Following an extensive study by the Company’s engineering team the well was put on a pump to increase the daily extraction rate of these drilling fluids, only to a rate that we consider will not risk causing damage to the underlying structures / formation. . The Company has observed an increasing oil cut to water in recent days and is hopeful for near term production. The oil Initial Production rate will be communicated to the market as soon as it is known.
- The Company’s third well in Mississippi, the Bourke #4 well, was put into production on the 5th of October and pumped at a rate of 132bopd.
- Independent consultant Gustavson Associates confirmed the potential of Austin Exploration’s two flagship projects in Colorado and Texas. The international oil, gas and mining consultant makes P50 (50% probability) ultimate recovery estimates of 31.28 million barrels of oil and 66.53 billion cubic feet of gas across these flagship properties.
- Formal discussions to drill at the Company’s licence in the Cooper Basin, PEL 105, have begun. The Company has a 50% Joint Venture with Beach Energy. Beach is the operator for the project and will carry Austin for the first \$1.75 mil of the first well that the JV drills.
- Austin’s focus on cost reductions continues with approx \$1.1mil dollars of non-essential operating costs removed from the business. The Company remains focused on maximising in-ground investment.
- No safety or phase 1 environmental incidents.
- World class petroleum engineering team driving success at North American oil and gas assets.

North American Assets

Fremont County, Colorado

Pathfinder Niobrara Project

- AKK has an 85% interest in approx 11,560 acres at its Pathfinder Project in the Denver-Julesburg Basin
- General Manager: Ms Ola Akrad
- Primary Objective is the Niobrara Shale
- Secondary Objectives: Pierre, Greenhorn and Coddell formations

Pathfinder C11-12 1HZ Well

The Company successfully drilled a 4100ft horizontal leg to a total measured depth (MD) of 9870 ft at its Pathfinder project in Colorado. The 4100 foot (approx 1,250 metre) leg of this well was drilled successfully with no operational issues experienced during drilling. The drilling of the horizontal leg was successful while staying in the zone of interest that the Company determined to have the best formation characteristics and pay potential within the Niobrara Formation. Hydrocarbon shows were encountered throughout the drilling of the horizontal leg.

As announced to the market the Company successfully completed drilling of a vertical well into the Niobrara formation.. The well exhibited excellent resistivity (an indication of oil saturation) and fracability (how amenable to fracture stimulation the rock is). The results are comparable to, or exceed, log data from some of the best performing wells in the play. On the back of the encouraging logs, the Company decided to skid the rig on the same drill pad and drill its first horizontal well into the Niobrara formation. This allowed the Company to achieve maximum cost efficiencies whilst at the same time completing the second well of its three well commitment, required by June 2013. The Company had initially planned to immediately return to the first vertical well and complete this as a second horizontal well. To allow for optimal engineering design for the second horizontal well, the Company's engineering team decided it was prudent to allow for at least 90 days of production before completing the second horizontal Niobrara well.

The well has been successfully prepared for a 16 stage frac job which is expected to commence at the end of October/early November. The Company looks forward to communicating these results to the market as they come to hand.

Burleson County, Texas

Birch Project

- AKK holds a 93.5% Working Interest in the 5000 acre Texas Birch Prospect
- General Manager: Mr Aaron Goss
- Primary Objective is the Eagle Ford Shale – 3 vertical well program to test this formation underway

- Other Objectives include Austin Chalk, Taylor Sands, Buda and Georgetown formations

Birch # 3 Schwartz/ Galbreath Well

The Company has successfully drilled its third well at its Texas Birch project to a total measured depth (MD) of 13,213 ft including a 4000 foot horizontal leg into the Austin Chalk formation. This makes Birch #3 the Company's deepest ever well.

The Company believes it may have intersected a large oil reservoir at approximately 10,675 feet as a large gas kick produced a 40 foot gas flare whilst 20 barrels of oil were returned to the pits over several hours. During drilling, the well had several oil shows in the pits and a series of large gas kicks with readings reaching as high as 5404 units. This caused several delays during drilling as the gas has to be flared off until the pressures were sufficiently reduced to allow the resumption of drilling operations.

When drilling through the Austin Chalk the oil and gas shows were considered so significant that the company decided it should produce and deplete the Austin Chalk ahead of exploring the Eagle Ford potential. Consequently, the Company has immediately moved forward with setting up production facilities for this well.

Due to the highly porous nature of the Austin Chalk formation, the well is returning the drilling fluids that were used to drill this well. Following an extensive study by the Company's engineering team the well was put on a pump to increase the daily extraction rate of these drilling fluids, only to a rate that we consider will not risk damage to the underlying structures / formation. The Company has observed an increasing oil cut to water in recent days and is hopeful for near term production. The oil Initial Production rate will be communicated to the market as soon as it is known.

The nearest well to the Birch #3 Well, the Christico Tharp Unit #1 well, was drilled in 1990 and is approximately 1km away. This well produced approx 117,277 barrels of oil and 1,027,517 MCF (1.027Bcf) of gas from the Austin Chalk. The initial signs from the B3 well indicates that two wells should have similar production capabilities and based on this the Company's engineering team has replicated the design of this well.

Birch #2 Stern Well

Several operational and drilling issues with the on-site work personnel were encountered whilst drilling this well. The Company's Management were not satisfied with the rig and a decision was made to temporarily halt drilling operations. The well had reached a total depth of 8678 ft and was at the top of the Austin Chalk when drilling was halted.

The Taylor Sand was encountered at 6,748-6,780 feet and has a gross thickness of 32-feet. This formation has been a prolific gas producer in Texas for many years. Electronic logs were run and indicate good neutron porosity. Based on these logs and the thickness of the formation the Company believes this well could produce commercial quantities of gas.

AusCo Petroleum's engineering team has now taken full control for the operations and drilling of this well. A full engineering analysis is underway and the Company expects to resume operations at this well in early 2013.

Birch #1 Well

The B1 well continues to demonstrate high gas flows from the Taylor Sand formation and Company is proceeding to set this well up for gas production and sales. A frac of the Taylor Sand is scheduled for the first week of November. With infrastructure and gas gathering pipelines located approximately 1 kilometre away, the Company expects the cost of moving this well into production will be minimal and will further add to cash flow. Initial gas flow production rates will be communicated to the market when known.

Dimmitt County, Texas

- AKK has a 27.36% Net Revenue Interest in a one well program
- General Manager: Mr Aaron Goss
- The well has produced 27,995 barrels from the Austin Chalk since being put into production in 2010

Adams County, Mississippi

- AKK has a 50% Interest in an on-going well by well program
- General Manager: Mr Aaron Goss
- The Operator is a highly successful and experienced oil and gas operator local to Mississippi
- Primary Objective is the Wilcox formation
- The Company has a 100% success rate in Mississippi

The Company's third well (M3) in Mississippi, the Bourke #4 well, was put into production on the 5th of October and pumped at a rate of 132bopd. The pumping rate is determined by the operator at a rate that will not risk causing damage to the formation to recover the maximum possible oil reserves over the life of the well.

- M1: Armstrong Well. IP Rate = 82 bopd. In production since May 2010, and has produced 31,751 BO
- M2: Commencement Well. IP Rate = 135 bopd. In production since May 2011, and has produced 36,251 BO

Kentucky Exploration LLC

- AKK holds a 50% working interest in a Joint Venture project covering approximately 3000 acres (1000 acres under option) in Kentucky
- Planning for the company's first horizontal well is underway
- General Manager: Mr Timothy Hart

Intensified engineering concepts continue to be designed and applied to the Company's 50% Joint Venture project in Kentucky USA. Austin's General Manger for Kentucky, Mr Timothy Hart, has been working with the engineering team on a plan to further boost its production in Kentucky. Since 2011 the Company has increased

its daily production from approx 0.7BOPD to approx 22 BOPD. A detailed engineering plan is underway to drill the Company's first ever horizontal well in Kentucky with a view to begin drilling in early 2013.

Australian Assets

PEL 105 - Cooper Basin South Australia

- AKK holds a 50% working interest in PEL 105 covering an area of 218 square kilometres in the Cooper Basin
- Joint venture with Beach Energy (ASX: BPT)
- Beach to carry Austin for the first \$1.75mil of the well

The Company met with Beach Energy at its offices in Adelaide, South Australia in late October. The Company has a 50/50 Joint Venture with Beach Energy over a 218 square kilometre block in the prolific Cooper Basin in South Australia. Planning is underway to drill the Company's first major on-shore well in Australia in the first half of 2013. Beach will be the operator of record for the project and has a P50 Recoverable reserves of 2 million barrels of oil.

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ABOUT AUSTIN EXPLORATION:

Austin Exploration is an Oil and Gas Company with assets in Australia and the United States. Austin has strategically shifted its core focus towards non-conventional shale exploration in the United States. The Company has now established a major presence in two of America's most prolific oil and gas basins. Austin controls more than 11,000 acres in Colorado in the Niobrara Shale and over 5,000 acres in Texas in the Eagle Ford Shale. Austin has producing oil and gas wells in Texas, Mississippi and Kentucky. Austin also has a highly prospective Oil and Gas Licence, PEL 105, in the Cooper Basin of South Australia. The company's wholly owned US Subsidiary, Aus-Tex Exploration Inc, turned cash flow positive in January 2011. To face future opportunities, Austin has strengthened its board and management teams. Austin is listed on the Australian Securities Exchange (ASX code: AKK) and on the OTC-QX International in the United States (AUN-XY).