

AUSTIN EXPLORATION LIMITED
ABN 98 114 198 471



Second Quarter Report FY2012

For the three months ended
December 31, 2011

With Australian and USA
Activity updates through
January 30, 2012

OVERVIEW OF OPERATIONS AND ACTIVITIES

Austin Exploration Limited (ASX: "AKK") currently maintains working interests and net revenue interests in five key oil and gas provinces in Australia and the United States.

Through existing oil production in the US, the Company's wholly owned US Subsidiary, Aus-Tex Exploration Inc, continues to be cash flow positive.

The quarter ended 31 December 2011 continued to be a progressive and positive period of growth for Austin Exploration and Aus-Tex Exploration.

Highlights

- **Successful drilling of first of initial three wells on Eagle Ford shale assets, USA**
- **Full production & flow testing imminent**
- **Dual producing oil & gas well to be considered to enhance cash flow**
- **Significant increase in Austin's existing Kentucky JV oil & gas production**
- **Austin joins trading on prestigious New York-based OTC international markets**
- **\$1 million capital raising announced since 31 December 2011 quarter balance date**
- **Austin on track to secure a reserves based debt and equity funding facility**
- **Richard Cottee, respected international petroleum industry executive, joins Austin Board as Non-Executive Chairman**
- **Discussions with Beach Petroleum re Cooper Basin JV drilling plans**

A stand-out for the December 2011 quarter for Austin Exploration was the much-anticipated commencement of the Company's largest ever drilling project with the first of three wells drilled on the newly acquired Eagle Ford Shale acreage in Burlison Texas.

Significantly, the first well – Krueger #1 – was successfully drilled to target depth with positive results from targeted formations, including highly encouraging hydrocarbon shows from the Eagle Ford formation target.

Full production and flow testing of the well is about to commence following the setting of production casing. A dual-producing oil and gas well is being considered as an option to maximize cash flows.

Austin Controls 93.5% of this 5000 acre + project with the opportunity to drill 32 horizontal wells at 160 acre spacing.

Since the end of the December quarter, the expertise available to the Austin Board and management team has been further strengthened with the appointment of respected international petroleum executive, Mr Richard Cottee, as Non-Executive Chairman.

AUSTRALIAN OPERATIONS (Austin Exploration Limited)

AUSTRALIAN ASSETS (AUSTIN EXPLORATION LIMITED)

Cooper Basin - PEL 105 oil and gas project

- › AKK holds a 100% working interest
- › AKK's former JV Partner, Adelaide Energy, now owned by Beach Petroleum
- › 2012 drilling program expected to be formalized in coming weeks
- › PEL 105 is an area of 437 square kilometres, located approximately 60 kilometres north of Moomba in South Australia
- › P10 reserves for the planned Pirie #1 well are estimated at 23 Million barrels of oil
- › Estimated recovery of 1 million barrels of oil per well
- › Estimated well life of nine years
- › Estimated spacing allows for five additional wells on the licence

USA OPERATIONS (Aus-Tex Exploration, Inc.)

North American Assets (Aus-Tex Exploration Inc)

Non-conventional oil and gas projects acquired in 2011

Texas USA - Birch Eagle Ford project Colorado

- › AKK holds a 93.5% Working Interest of a total of approx 5000 acres
- › Primary Objective is the Eagle Ford Shale
- › Secondary Objectives: Taylor, Austin Chalk, Buda & Georgetown formations
- › 160 acre spacing allows for 32 horizontal wells to be drilled
- › First of 3 vertical 9000 ft (approx.) wells drilled
- › Initial vertical well programme designed to extensively analyse formation characteristics
- › Krueger Unit #1 well drilled to TD of 9325 ft
 - 7 Hydrocarbon shows on mud logging analysis
 - Unconventional analysis shows high TOC, (total organic content), mature Kerogen, and brittle zones
 - Wet gas potential

Well expected to be in full production in the first quarter 2012

- › Independent reserve estimates of approx 179,000 – 810,000 BO per horizontal well

Birch Prospect, Krueger Unit #1 Well - Oil on Pits



Drilling Rig at Krueger Unit #1 Well



Colorado USA –

- › Pathfinder project is located in Fremont County and Custer County Colorado in the Canon City Embayment in the DJ Basin
- › AKK controls 85% of Fremont county leases:
 - 10,430.61 acres
 - 65% NRI
- › AKK controls 100% of Custer county leases:
 - 1,132.26 acres
 - 85% NRI
- › Primary Objective is the Niobrara Shale in the Denver-Julesburg (DJ) Basin
- › Secondary Objective: Pierre shale
- › 1st Horizontal well to commence 1st half of 2012
 - Vertical pilot hole 5,900 ft deep
 - Log and core to decide the direction of horizontal leg
 - Drill a 2,000- 4,000 lateral with multistage hydraulic fracturing treatment
- › Independent reserve estimates of approx 200,000 – 500,000 BO per horizontal well
- › First phase environmental report showed no major environmental concerns
- › Newly discovered core data confirms the prospectively of this play:
 - High TOC content average 2-4.4% that is mature organic content
 - Low clay content less than 25% and high calcite and quartz content which indicates brittle formation that make it great candidate for hydraulic fracturing treatment



Aus-Tex producing assets

North Carrizo, Yolanda Villarreal #1 oil well (Dimmitt County, Texas)

- › Aus-Tex holds 27.36% NRI
- › Producing formation is the Austin Chalk
- › The well was completed and put on production on July 31, 2010 and has been producing oil since that time. As at the 31st December 2011 the well has flowed 22,436 barrels of crude oil. Well is currently producing 25 BOPD on average
- › All Oil being produced is being sold to the local refinery
- › The highest daily production rate to date was 256.7 BOPD

Armstrong, Ellislie Plantation # 1 oil well (Adams County Mississippi, USA)

- › Aus-Tex holds a 37.5% NRI
- › Producing formation is the Wilcox Formation
- › The well was completed and put on production on August 8, 2010 and has been producing oil since that time. As at the 31st December 2011 the well had flowed approx 23,623 barrels of crude oil. Well is currently producing 35.5 BOPD on average
- › All Oil being produced is being sold to the local refinery
- › The highest daily production rate to date was 82 BOPD

Kentucky Exploration LLC

Since drilling began in August of this 2011, Kentucky Exploration, LLC, a wholly-owned subsidiary of Austin Exploration and Newtak its Joint venture partner, has experienced a stabilized production rate of approx 25-30 barrels of oil per day. The drilling is currently taking place in Webster County.

Onsite manager Mr Jaime Garcia, who is Austin Exploration's east unit business Manager, instituted a number of research and development initiatives along with new technology to jump start the production. Garcia says that secondary recovery techniques such as saltwater injection procedures and bacterial elimination were implemented to extract the maximum amount of oil. New technology also has also played a significant role in the site's progress, as nitrogen foam, sand and slick water fracking were all used to achieve the increased daily flow rates.

Webster County, Kentucky, USA – Russell Lease

- › Kentucky Exploration holds a 75% NRI and 100% WI of a total of 68 acres
- › Primary Objective is the Tar Springs formation
- › Secondary Objectives: Pennsylvania sand formation
- › 20-acre spacing
- › Currently three wells producing and one injection well
- › Vertical wells drilled up to 1800 feet
- › Possibilities to drill a side-tracked well to the Tar Spring formation

Webster County, Kentucky, USA – Ted Majors and Ralph Major Leases

- › Kentucky Exploration holds a 75% NRI and 100% WI of a total of 95 acres
- › Primary Objective is the Tar Spring and the McClosky formation

- › Secondary Objectives: Pennsylvania sand formation
- › 20-acre spacing
- › Two wells currently drilled: TMs#1 and RM#1
- › Vertical wells drilled up to 2800 feet

Webster County, Kentucky, USA – WW-Dacy lease

- › Kentucky Exploration holds a 75% NRI and 100% WI of a total of 136 acres
- › Primary Objective is the Waltersburg formation
- › Secondary Objectives: Palestine formation
- › 20-acre spacing to a depth up to 2800 feet
- › Four producing wells and one injection well

Webster County, Kentucky, USA – WW-Aldrich Lease

- › Kentucky Exploration holds a 75% NRI and 100% WI of a total of 90 acres
- › Primary Objective is the O'Hara and McClosky formation
- › Secondary Objectives: Tar Springs and Hardinsburg formation
- › 20-acre spacing
- › Two wells currently drilled: WWA#6 (producing well), and WWA#5 (possible an injection well)
- › Vertical wells drilled up to 2800 feet

Edmonson County, Kentucky, USA – Park City Leases

- › Kentucky Exploration holds a 85.7% Working Interest of a total of approx. 900 acres
- › Primary Objective is the Coniferous for oil and Ft Payne, Warsaw, and Devonian shale for gas
- › 10 acre spacing
- › 18 wells on location
- › 4 wells producing oil
- › 10-acre spacing vertical well
- › Drilling depth up to 1500 feet
- › Nitrogen rejection plant and pipeline

CAPITAL RAISING

Subsequent to 31 December 2011, Austin Exploration Limited has raised approximately \$1,121,000 (net of costs) through the issue of 44 million shares and 44 million options under the company's capacity to issue 15% without obtaining shareholder approval. This additional cash will be applied towards working capital and the ongoing capital commitments on the Texas Birch site in the US.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

AUSTIN EXPLORATION LIMITED

ABN

98 114 198 471

Quarter ended ("current quarter")

31 DECEMBER 2011

Consolidated statement of cash flows

	Current quarter \$A	Year to date (6 months) \$A
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	351,983	821,994
1.2 Payments for (a) exploration & evaluation	(872,684)	(872,684)
(b) development	(46,787)	(1,155,187)
(c) production	(163,409)	(306,401)
(d) administration	(494,878)	(1,081,691)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	5,897	28,844
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	(1,219,878)	(2,565,125)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		(3,790,880)
(b) equity investments		(72,568)
(c) other fixed assets	(72,568)	(1,663,816)
(d) Kentucky Exploration LLC JV		
1.9 Proceeds from sale of: (a) prospects		420,000
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other		
Net investing cash flows	(72,568)	(5,107,264)
1.13 Total operating and investing cash flows (carried forward)	(1,292,446)	(7,672,389)

1.13	Total operating and investing cash flows (brought forward)	(1,292,446)	(7,672,389)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.		85,093
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	72,823	72,823
1.17	Repayment of borrowings	(2,287)	(2,287)
1.18	Dividends paid		
1.19	Other (Capital Raising Costs and OTCQX listing)	(50,991)	(633,991)
	Net financing cash flows	19,545	(478,362)
	Net increase (decrease) in cash held	(1,272,901)	(8,150,751)
1.20	Cash at beginning of quarter/year to date	2,915,845	9,713,369
1.21	Exchange rate adjustments to item 1.20	(78,786)	1,540
1.22	Cash at end of quarter	1,564,158	1,564,158

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	111,233
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 CONTRACT FEES TO DIRECTORS AND OFFICERS

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

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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

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Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A	Amount used \$A
3.1 Loan facilities	72,824	72,824
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A
4.1 Exploration and evaluation	800,000
4.2 Development	150,000
4.3 Production	110,000
4.4 Administration	446,000
Total	1,506,000

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	1,514,158	2,865,845
5.2 Deposits at call	50,000	50,000
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	1,564,158	2,915,845

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			

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				
7.3 +Ordinary securities	593,163,760	593,163,760		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	2,000,000	2,000,000	\$0.03	NIL
7.5 +Convertible debt securities (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				

7.7	Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
		500,000 "2012" D Class Options		\$0.24	01/03/2012
		375,000 "2012" E Class Options		\$0.24	01/03/2013
		1,200,000 "2012" H Class Options		\$0.10	23/11/2012
		237,750,000 "2013" I Class Listed Options		\$0.055	06/07/2013
		163,295,975 "2012" J Class Listed Options		\$0.055	06/07/2012
		2,000,000 "2013" K Class Options		\$0.055	12/12/2013
7.8	Issued during quarter	30,000,000 "2013" I Class Listed Options		\$0.055	06/07/2013
		2,000,000 "2013" K Class Options		\$0.055	12/12/2013
7.9	Exercised during quarter				
7.10	Expired during quarter	500,000 "2011" F Class Options		\$0.20	15/10/2011
		146,512,930 "2011" Listed Options		\$0.10	19/11/2011
		10,000,000 "2011" G Class Options		\$0.10	22/12/2011
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

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:

(Company secretary)

Date: 30/01/2012

Print name: David Nairn

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.