



Listed on the Australian Securities Exchange ("AKK") and the OTC-QX International in the USA (AUN-XY)  
ACN 114 198 471

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## Second Quarter Report FY2013

For the three months ended  
December 31, 2012



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## OVERVIEW OF OPERATIONS AND ACTIVITIES

- **Record total production of 250 BOE P/d achieved in December (128 BOE P/d net to Austin)**
- **Company on track to achieve Project 500 Squared by June. More than \$1 million of non-essential costs removed from the business**
- **Pathfinder #1 well flowing oil and gas under high pressures**
- **Company acquires 100% of Birch Eagle Ford Project in Texas**
- **Company now Operator of Record at its two flagship assets in Colorado and Texas**
- **Substantial de-risking and security of assets has been achieved**

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.

### Strategic and Corporate Achievements

**The primary aim of the last 6 months of frenetic drilling was to de-risk our properties by confirming our exploration thesis at Niobrara and the Eagle Ford. By using lower-cost vertical exploration wells the Company has successfully secured tenure of those properties, while confirming the presence of hydrocarbons, de-risking further development and increasing the value of our tenements.**

#### ***De-risking***

In Texas, the Company drilled 3 vertical exploration wells to the Eagle Ford/ Austin Chalk. Each well encountered oil and gas, with Birch #1 and #3 producing oil and gas. The result has been to de-risk the horizontal wells, fracking has been more than justified and planning is currently under way for drilling this calendar year.

In Mississippi, AKK has had 3 out of 3 successful low cost , medium risk wells providing valuable cash flows for the Company. In combination with our Kentucky assets, this is the bedrock of the Company's ability to cover its costs and free up capital for our higher risk - higher rewards asset plays. Reliable production in Kentucky further gives the company the confidence to plan its first horizontal well in the field to be drilled.

The philosophy of de-risking first before embarking on major capital of horizontal with fracking paid dividends in the Niobrara. The lessons learnt in the Niobrara #1 Exploration well, through the application of casing

drilling, were successfully applied to the Pathfinder discovery with Initial Production capabilities of above 350 BOEPD [or 350 – 400BOEPD] being established. The Company looks forward to the long term production from this well.

### **Security of Tenure**

The tenement conditions in our Texan and Coloradan assets influenced the order in which the Company drilled, and the type and speed of drilling. AKK has met all of the conditions and, in a major breakthrough, in Texas the Company was able to renegotiate the terms of our leases to extend the time in which we have to drill new wells. This allows the Company to optimise returns by bringing its discoveries into long term production through horizontal drilling and hydraulic fracturing.

### **Project 500 Squared**

In March 2012 Austin Exploration launched its 500 squared initiative for fiscal year 2013, whereby it pledged to reduce non-operating non-drilling costs by at least \$500k over the year, and increase its production to 500 BOEPD by the end of the year. The Company is pleased to advise that in the first 6 months of this programme AKK has taken out around \$1 million (double the target) in half the time, despite increased drilling activities. This is an achievement for which the AKK Management is rightly proud.

Over the month of December our total production averaged 250 BOEPD (AKK's share 128 BOEPD) showing that the company is on target to meet the second leg of the Project. With the Pathfinder production coming on stream, where our Net Revenue Interest is 65%, and the pumping commencing on the Austin Chalk Horizontal well (de-watering may take up to 100 days), where our Net Revenue Interest is 85%, we are confident that the 500 squared programme has been an unambiguous success .

### **Environment and Safety**

The Company's concentration on safety and the environment continued unabated during the quarter with zero lost time accidents and no environmental incidents making the full half year accident and environmental incident free. This was no mean feat given the increased drilling activity that is outlined below.

## **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 C 11 – 12 No. 1 HZ Well:**

As announced to the ASX on 24 Jan 2013, the well is continuing to flow oil and gas under high pressures. The well has not yet stabilized and therefore production rates at this early stage are unquantifiable. The bottom hole assembly of the well is being re-engineered to allow for these unexpected high pressures being produced by the reservoir. On the surface the equipment is being reengineered to handle the high gas pressures of over 1500psi. It is a common occurrence for Niobrara wells in the Denver Julesberg (DJ) Basin to produce oil and gas under high pressure for several weeks before stabilized and optimal production can be achieved. In the case that the gas from the well does not bleed off, a technical and economic feasibility study is being conducted on connecting the well to nearby pipelines. At the time the well was shut-in on 24 Jan 2013 it was producing approx 350 – 400 barrels of oil equivalent. The well was pulsing inconsistently with surges of oil and gas. As the Company brings the well back on line it will be able to more accurately determine the ratio of oil to gas. The Company is extremely encouraged by the early signs of this well and looks forward to completing the well and putting it into production. A Sentry 640 unit is being installed and has been designed to efficiently pump at a rate of 500 barrels of oil per day.

Consistent with the Company's strategy of de-risking and proving the up the potential of its projects, this recent discovery will add significant value to the Company's Pathfinder project. With acreage in the DJ Basin now selling in the vicinity of \$10,000 per acre this recent discovery will add significant value, and many multiples, to the Company's acreage that was acquired in 2011.

### **Burleson County, Texas**

#### **Birch Project**

- AKK holds a 100% 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

The Company negotiated to buy-out the Operators 6.5% Working Interest. This gives the Company a 100% ownership of this 5000 acre prospect and full control over its future development. Following the Company's 2012 drilling program in Texas, the Company has proved the presence of a 270 ft (82 metre) thick section of the Eagle Ford Shale and several other hydrocarbon producing zones at the Company's Birch project and believes a horizontal well in the Eagle Ford will add significant multiples of value to this project. Furthermore, the Company has successfully negotiated an extension of its oil and gas leases to 2015/2016.

This extension of the leases in Texas is very important as it gives the Company time to focus on maximising production and cash flow whilst at the same timing affording the Company the appropriate amount of time to efficiently engineer its assets and effectively perform drilling and completion operations. The buy-out and extension was successfully negotiated for a total of \$USD1.25 Mil.

### **Birch # 3 Schwartz/ Galbreath Well:**

#### **4000ft Horizontal**

The well is still flowing back the drilling and completion fluids that were lost to the formation whilst drilling. The well has unloaded approximately 20% of the drilling and completion fluids. The Company's engineering team believes that at least 50-70% this drilling fluid must be removed before a significant increase in the oil cut will be seen. The Company is targeting 2nd quarter 2013 production from this well.

### **Birch #1 Well**

The well is producing constantly at approx 20 BOEPD from the Eagle Ford Shale from a vertical well. For the Eagle Ford to be producing at these rates from a vertical pilot well is extremely encouraging as the success of oil liberation from these tight rock formations has come from the technological advancements in horizontal drilling and fracking. The logs have confirmed a 270 ft thick section of Eagle Ford and as such this would be an excellent area to drill an Eagle Ford horizontal well. The logs from this vertical well have also confirmed the presence of several other hydrocarbon bearing zones such as the Austin Chalk, the Georgetown and the Buda formations. A horizontal well at this project will add many multiples to the value of this project and acreage.

### **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 29,514 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

M1: Armstrong Well. IP Rate = 82 bopd. In production since May 2010, and has produced 33,547 BO

M2: Commencement Well. IP Rate = 135 bopd. In production since June 2011, and has produced 41,328 BO

M3: Bourke # 4 well. IP Rate = 248 bopd. In production since October 2012 and has produced 5467 BO

### **Kentucky Exploration LLC**

- AKK has in a Joint Venture project covering approximately 3000 acres (1000 acres under option) in Kentucky
- General Manager: Mr Timothy Hart
- Vertical well to test the Jackson & Cyprus formations to be drilled in February 2013. The nearest well to this which was drilled in the 1950's initially produced at over 100 BOPD
- Planning for the company's first horizontal well is underway

Intensified engineering concepts continue to be designed and applied to the Company's 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 20 BOPD. A detailed engineering plan is underway to drill the Company's first horizontal well in Kentucky. A 3000 ft vertical pilot test well is scheduled to commence in the first week February 2013

## Australian Assets

### **PEL 105 - Cooper Basin South Australia**

- AKK holds a 50% working interest in PEL 105 covering an area of 437 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 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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### **DISCLAIMER:**

*This announcement contains or may contain "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21B of the Securities Exchange Act of 1934. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance are not statements of historical fact and may be "forward looking statements." Forward looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated. Forward looking statements in this action may be identified through the use of words such as "expects", "will," "anticipates," "estimates," "believes," or statements indicating certain actions "may," "could," or "might" occur.*

### **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).*

# 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 2012

### Consolidated statement of cash flows

		Current quarter \$A	Year to date (6 months) \$A
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	338,238	624,529
1.2	Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(6,729,525) (168,582) (555,001)	(15,636,745) (751,082) (837,165)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	55,471	131,258
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other (provide details if material)		
<b>Net Operating Cash Flows</b>		<b>(7,059,399)</b>	<b>(16,469,205)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets (d) Kentucky Exploration LLC JV		(56,513)
1.9	Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets		
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other (Equity Distributions from Kentucky Exploration LLC JV)	44,303	79,523
<b>Net investing cash flows</b>		<b>44,303</b>	<b>23,010</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(7,015,096)</b>	<b>(16,446,195)</b>



1.13	Total operating and investing cash flows (brought forward)	(7,015,096)	(16,446,195)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings	(2,664)	(5,357)
1.18	Dividends paid		
1.19	Other (Capital Raising Costs and OTCQX listing)	(0)	(5,774)
	<b>Net financing cash flows</b>	(2,664)	(11,131)
	<b>Net increase (decrease) in cash held</b>	(7,017,760)	(16,457,326)
1.20	Cash at beginning of quarter/year to date	11,338,275	21,090,509
1.21	Exchange rate adjustments to item 1.20	( 248,360)	(561,028)
1.22	<b>Cash at end of quarter</b>	4,072,155	4,072,155

### 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	139,018
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

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	58,534	58,534
3.2 Credit standby arrangements		

**Estimated cash outflows for next quarter**

	\$A
4.1 Exploration and evaluation	1,859,695
4.2 Development	-
4.3 Production	160,000
4.4 Administration	717,784
<b>Total</b>	<b>2,737,479</b>

**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	4,022,155	11,288,275
5.2 Deposits at call	50,000	50,000
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>4,072,155</b>	<b>11,338,275</b>

## 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	Legal Doc Purchased Texas Birch Prospect 6.5% minority interest	93.5%	100%

## 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	<b>Preference securities</b> (description)			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	1,502,386,721	1,502,386,721	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	5,000,000	5,000,000	\$0.022 Nil
7.5	<b>+Convertible debt securities</b> (description)			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted			

**Appendix 5B**

**Mining exploration entity quarterly report**

7.7	<b>Options</b> <i>(description and conversion factor)</i>	964,612,148 “2013” I Class Listed Options		\$0.055	<i>Expiry date</i>  06/07/2013
		2,000,000 “2013” K Class Options		\$0.055	12/12/2013
7.8	Issued during quarter	35,000,000 “2013” I Class Listed Options		\$0.055	06/07/2013
7.9	Exercised during quarter				
7.10	Expired during quarter	1,200,000 “2012” H Class Options		\$0.10	23/11/2012
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <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: 31/01/2013

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.