



AUSTIN EXPLORATION

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



Austin successfully spuds in C18#2 well targeting oil production from the Pierre formation at the Company's Pathfinder project in Colorado

Second Quarter Report FY2016

For the period ended 31 December 2015

With additional information on subsequently completed activities

REVIEW OF OPERATIONS AND ACTIVITIES

Quarterly Highlights

- Austin secures AUD\$1.9mil (USD\$1.35mil) financing from US based investment firm, Magna
- Financing package designed to support Austin's Pierre drilling program in Colorado – success will unlock significant value for Company and shareholders
- Austin spuds high impact C18#2 well targeting production from the Pierre formation at Company's 100% owned and operated Pathfinder property in Colorado
- Company secures Atlas Copco RD20 Drill Rig and all associated machinery through a strategic low cost Drilling Rig rental agreement
- Dedicated Drilling Rig rental agreement at flagship Pathfinder property significantly reduces ongoing development costs and increases operational efficiencies
- Company identifies a series of high impact oil exploration targets in the Pierre formation at 15,282 acre Pathfinder project in Colorado
- Austin to divest properties where it is not the operator and has no control over operating expenses
- Company agrees to the cash sale of its Texas Birch property for AUD\$1.5mil (USD\$1.05mil)
- Proceeds from sale will strengthen the company's balance sheet, reduce Austin's line of credit and significantly reduce debt profile
- Company's continues to aggressively strip out costs in response to falling oil prices which fell below USD\$30 per barrel in January

REVIEW OF OPERATIONS AND ACTIVITIES

Austin Exploration Limited ("Austin" or "the Company") (ASX:AKK) is an oil and gas explorer and producer with working interests and net revenue interests in four proven US oil and gas provinces, being Colorado, Kentucky, Mississippi and Texas. Austin is the operator of its Colorado and Kentucky projects.

Austin maintains, and is proud of, its outstanding safety and environmental record, with no lost time accidents or environmental incidents ever.

The past quarter has been an extremely difficult period for all in the oil industry with the price of oil hitting 13 year lows and selling at \$26per barrel (WTI) in January.

The Board and Management of Austin have been judiciously putting the necessary steps in place to ensure that the Company is in the best possible position to navigate its way through this once in a generation downturn in the energy sector and have implemented the following strategies in response:

- Securing a \$1.9mil financing package through Magna, a US based institutional finance fund
- Divestiture of non-core assets in Texas and Mississippi where the Company is not the sole operator
- Further significant Company-wide austerity measures to reduce all non-essential G&A costs
- Focus on low cost and high impact drilling of the Company's Pierre prospects in Colorado which remain highly economic in the current low oil price environment.

As noted above, the Company has taken the decision to divest of its non-core assets where it is not the sole operator and as such has limited control over operational expenditures. Complete control over expenditures in the current environment is paramount.

The Company has agreed to sell its Texas Birch property for \$1.5 million in an all cash deal that is set to close in the near future. Further, the Company has begun the process of selling its five oil wells at its Mississippi project with the sales and marketing process expected to take 90 days.

Importantly, both of these asset sales will significantly strengthen the Company's balance sheet and reduce its debt profile, placing Austin in the most financially secure position possible during this period of low oil prices. The Board and Management of Austin consider this to be a key priority in the current climate.

Austin was very pleased to announce that drilling operations commenced in Colorado at the Company's C18#2 well at Pathfinder. This well is targeting the oil rich Pierre Shale formation, following an extensive high definition geophysical 3D seismic survey undertaken by Austin in section 18 of this highly prospective project. The property, consisting of 15,282 acres sits directly over the DJ Basin (one of North America's most prolific oil and gas producing basins), is large enough to accommodate more than 350 wells in the Pierre formation.

Austin's strategic low cost drilling program at Pathfinder has been considerably advanced through the Company recently securing a comprehensive drill rig fleet agreement from Math Energy Drilling LLC (ASX 9 November 2015). Under this ongoing agreement, Austin has exclusive use of the equipment, including an Atlas Copco RD20 Range 3 drill rig, for a flat monthly rate for an initial 12 month period.

With this agreement in place, Austin is in the unique position of being able to economically drill and complete a Pierre well for approximately \$500k. An oil discovery in the Pierre formation would provide a significant boost to cash flows and unlock a significant amount of untapped value in this world class oil and gas property, while considerably de-risking Austin's strategic investment here.

The Board and Management of Austin remain more committed than ever to ensuring prudent and disciplined management and guidance of the Company through the development of its low cost properties in Colorado and Kentucky. The Company is in a unique position of having low cost and high impact oil and gas prospects that remain highly economic in a low oil price environment.



Map Showing Austin's North American Oil and Gas assets

BUSINESS UNIT REPORTS

COLORADO BUSINESS UNIT

VP & General Manager

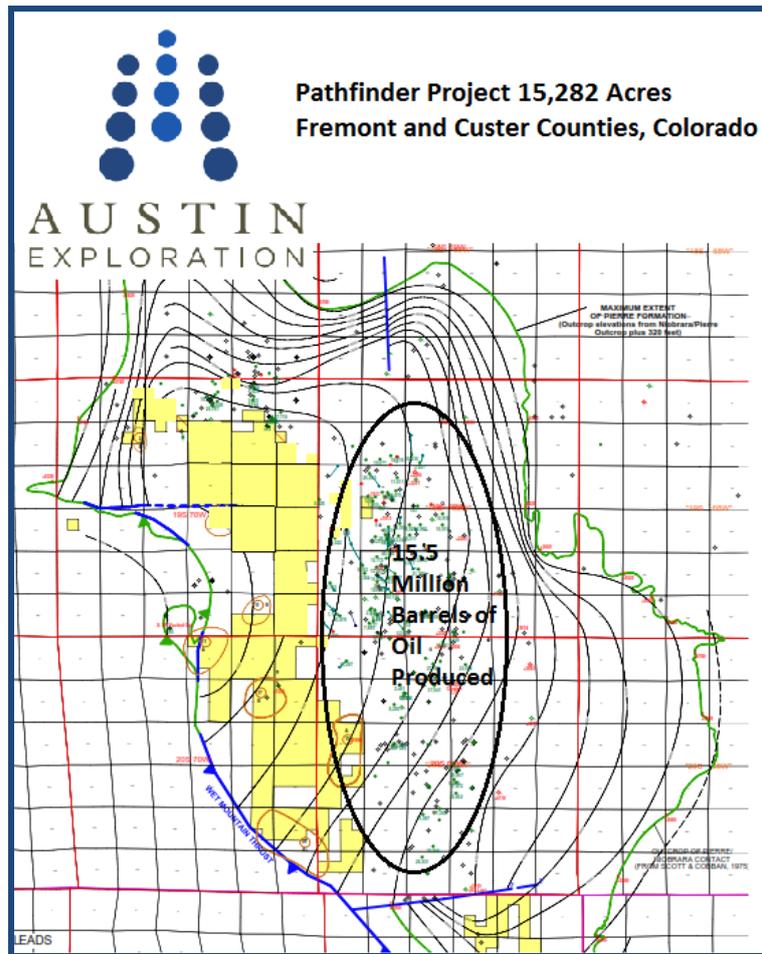
Mr. Aaron Goss

Austin is the Operator

- **Pathfinder Project, Fremont County, Colorado**
- **100% Working Interest in 15,282 acre property in the DJ Basin**
- **Primary hydrocarbon targets: Niobrara Shale & Pierre Shale**
- **Secondary Targets: Codell, Greenhorn, Grenaros and Dakota**
- **First Company to successfully drill and complete a Niobrara Horizontal in Fremont County with 403 BOEPD IP in 2012**

Colorado Business Unit Highlights:

- Drilling of the C18#2 well targeting oil production from the Pierre formation has commenced
- Drilling of the initial 100ft conductor section of the well is progressing well and has been halted in observance of Colorado State Wildlife regulations which prohibit ground disturbance due to elk breeding in the winter months
- Drilling will recommence in April
- Well satisfies lease commitments for full acreage retention
- Company secures Atlas Copco RD20 Drill Rig and all associated machinery through a strategic drilling rig rental agreement
- A dedicated drill rig rental agreement at Austin's Pathfinder property significantly reduces ongoing development costs and increases operational efficiencies
- State-of-the-art "zig-zag" high definition 3D seismic program was successfully completed which has identified several high grade exploration targets and further de-risked Austin's property
- Austin's property is directly adjacent to the Florence oil field which has produced approx. 16 million barrels of oil from the Pierre formation
- Pierre wells remain highly economic in the current low oil price environment
- The Pierre formation is a naturally fractured shale that is found at shallow depths of approximately 4000ft – wells drilled into the formation do not require hydraulic fracturing, therefore the cost to drill and complete them is generally less than \$1 million per well



The above map illustrates Austin's 15,282 acre property highlighted in yellow. The Pathfinder property sits directly adjacent to approx. 16 million barrels of oil that has been produced in Fremont County from the Pierre formation. Austin's acreage was previously held by coal and gold mining Companies and Austin believes its oil and gas reserves remain in virgin territory.

EASTERN BUSINESS UNIT (KENTUCKY & MISSISSIPPI)

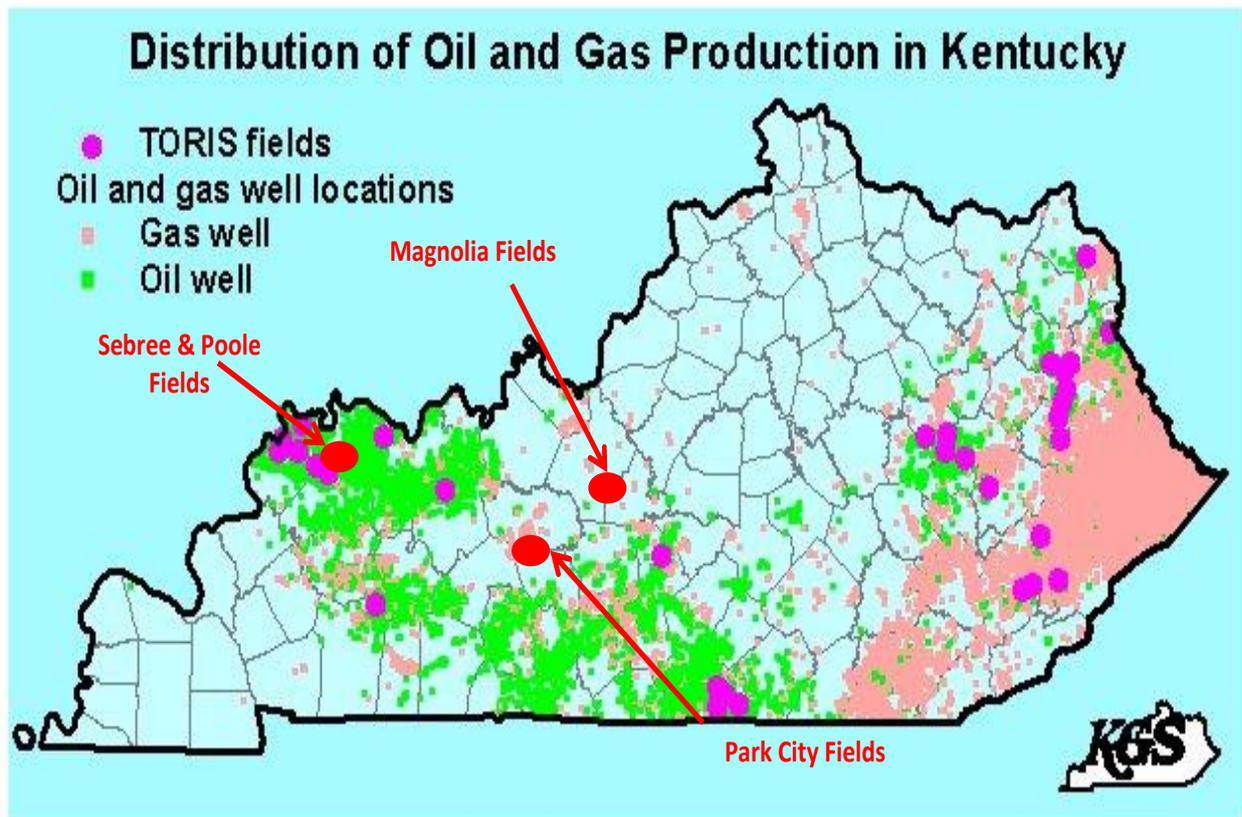
Mr. Timothy B. Hart

Chief Operating Officer

Austin is the Operator in Kentucky

Kentucky Exploration LLC. Approx. 4000 acre 50/50 Joint Venture with private Australian Investment Company

- Primary Hydrocarbon targets: Jackson Formation, Cyprus Formation and McCloskey Formation
- Secondary Targets: Palestine, McCloskey, Fort Payne, New Albany Shale, Hardensburg
- Conventional reservoir objectives and vertical drilling
- Continual engineering program underway designed to maximise production and operating efficiencies
- The Company's low cost, high impact drilling program in Kentucky provides an excellent source cash flow while minimizing the costs of all of Austin's operations
- Leases with high operational expenses and high water haulage, electricity and chemical programs have been put on idle until the price of oil recovers
- Low cost, shallow, high impact drilling program in Kentucky provides an excellent source of low risk and long life production, and cash flow, for the Company



The map illustrates Austin Exploration's leases in Kentucky. Kentucky Exploration LLC (Austin Exploration's wholly owned subsidiary) is operating approximately 4000 acres in Kentucky.

Mississippi Oil Properties:

- Austin has a 50% non-operated interest in 5 producing wells in Adams County, Mississippi
- The Company has decided to divest this asset which is consistent with the Company's strategy of monetizing properties where the Company has a minority interest and is not the operator

TEXAS BUSINESS UNIT

VP & General Manager:

Mr. Aaron J. Goss

- Birch Eagle Ford Project, Burleson County, Texas
- The Company has agreed to a sale of this property for \$AUD1.5mil (USD\$1.05mil)
- Yolanda Dual Austin Chalk Well. Dimmitt County, Texas
- Working Interest 36%, NRI = 27.6%
- Well drilled and completed in 2010. Initial Production rate = 300 BOPD

WORKPLACE AND ENVIRONMENTAL SAFETY

The Board of Austin is pleased to report that there were no safety or phase one environmental incidents over the past year. With drilling operations taking place in the US, the Board commends its US team on this achievement. The Company places a large emphasis on the safety of all people, from its own employees to external contractors at its well sites. It is mandatory that the Company's staff attend quarterly safety sessions

at its headquarters in Denver Colorado, as well as several OSHA safety programs that are held throughout the year.

INDEPENDENT CONSULTANT'S ANALYSIS

The independent oil and gas reserves and resources report below was completed and updated in 2014 by Gustavson Associates Inc., a worldwide leader in independent oil and gas reserve and resource evaluations. (It should be noted that this evaluation does not include additional acreage that has subsequently been acquired at Austin's Pathfinder Project in Colorado.)

A summary of the Company's oil and gas reserves and resources is listed below:

Austin Exploration's Net Contingent Resources						
Projects	Oil Resources			Solution Gas Resources		
	MMBbl (Million Barrels)			BSCF(Billion cubic feet)		
	P ₉₀	P ₅₀	P ₁₀	P ₉₀	P ₅₀	P ₁₀
Texas	0.780	1.606	3.250	4.470	9.209	18.590
Colorado	15.453	20.255	26.614	14.909	19.236	25.124
Kentucky	0.138	0.210	0.305	0.224	0.482	0.981
Mississippi	-	-	-	-	-	-
TOTAL –Contingent Resources	16.371	22.071	30.169	19.603	28.927	44.695

Austin Exploration's Net Reserves			
Reserve Category	Area	Net Oil Reserves (BBL)	Net Gas Reserves (Mscf)
Proved Developed Producing	Colorado-Niobrara	5,060	-
	Kentucky	38,737	-
	Mississippi	34,577	-
	Texas EF and Yolanda	191,470	116,420
Proved Developed Non-Producing	Mississippi	78,629	-
Proved Undeveloped	Texas EF	1,533,200	633,600
Probable Undeveloped	Texas EF	3,553,200	1,468,300
	Colorado-Pierre	31,100	6,700
Possible Undeveloped	Texas EF	5,271,100	2,178,300
	Colorado-Pierre	311,010	66,960
Austin Exploration's Total Net Reserves		11,048,083	4,470,280