



AUSTIN EXPLORATION

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



Operations underway at Austin's 15,282 acre flagship Pathfinder project in Fremont County, Colorado

Third Quarter Report FY2016

For the period ended 31 March 2016

With additional information on subsequently completed activities

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REVIEW OF OPERATIONS AND ACTIVITIES

Quarterly Highlights

- Austin has successfully paid out and extinguished its \$1.5 million bank debt facility
- The Company successfully executed on its divesture strategy by selling minority interests in Texas and Mississippi where it was not the operator and had no control over operating expenses for a combined AUD\$2.78 million
- Austin announced a Rights Issue to raise AUD\$1,733,433 which is fully underwritten by Patersons Securities Limited
- The Company's high impact drilling program is underway in Colorado targeting production from the Pierre formation
- A commercial discovery will be significant for Austin and would solidify the Company as being one of the lowest cost oil producers in the market that can be profitable in times of depressed oil prices

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 three proven US oil and gas provinces, being Colorado, Kentucky 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 financial quarter of 2016 has continued to be an extremely difficult period for all companies in the oil industry with the price of oil hitting 13 year lows and selling at \$26 per barrel (WTI) in January 2016.

The Board has been keenly aware of its fiduciary duty to Shareholders in terms of prudently managing the Company's finances and balance sheet during what has been one of the most challenging downturns in the oil and gas industry in 75 years.

In response, the Company successfully implemented the following steps to ensure that Austin is in the best possible position to navigate its way through this once in a generation downturn in the energy sector:

- Focused 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
- Eliminated debt completely upon closure of the sale of the Company's Mississippi interests and completion of the Rights Issue
- Significantly reduced costs at a corporate and operational level – G&A expenses reduced by approximately 75%
- Strategically and judiciously divested non-core assets in Texas and Mississippi to realise a combined AUD\$2.78 million
- Secured a strategic low cost drilling rig rental agreement enabling Austin to drill and complete an oil well for <USD\$500K

The elimination of Austin's bank debt with ANB Bank was a critical step forward for the Company. Recent reports suggest that 175 North American oil and gas companies have now filed for bankruptcy and, since the start of 2016, North American lenders have cut oil and gas credit lines by more than USD\$5.6 billion. This has been primarily due to the rapid decline in the price of oil which has caused companies to default on their debt covenants.

Austin's USD\$1.5 million debt facility with ANB Bank was due for review in April 2016. Following closure of the sale of Austin's Mississippi interest, Austin eliminated its bank debt thereby eliminating all risks associated with being in default of its debt covenants.

As noted above, the Company made the decision to divest of its non-core assets where it is not the sole operator and as such had limited control over operational expenditures. Austin firmly believes that complete control over expenditures in the current environment is paramount.

The Company has successfully executed on this strategy with the sale of its Texas Birch property completed for AUD\$1.9 million in an all cash deal, and by negotiating the sale of its interest in its Mississippi wells for AUD\$1.28 million. Importantly, these asset sales have significantly strengthened the Company's balance sheet and eliminated its debt, placing Austin in the most financially secure position possible during this period of low oil prices.

The successful implementation and execution of the above strategies have been critical for Austin in ensuring not only its survival but providing a clear path for growth for the Company and its shareholders. Austin's upcoming drilling program in Florence has immense potential and the Board and Management remain more committed than ever to the development of this world class asset and returning value to the Company's shareholders.

BUSINESS UNIT REPORTS

COLORADO BUSINESS UNIT

VP & General Manager

Mr. Aaron Goss

Austin is the Operator

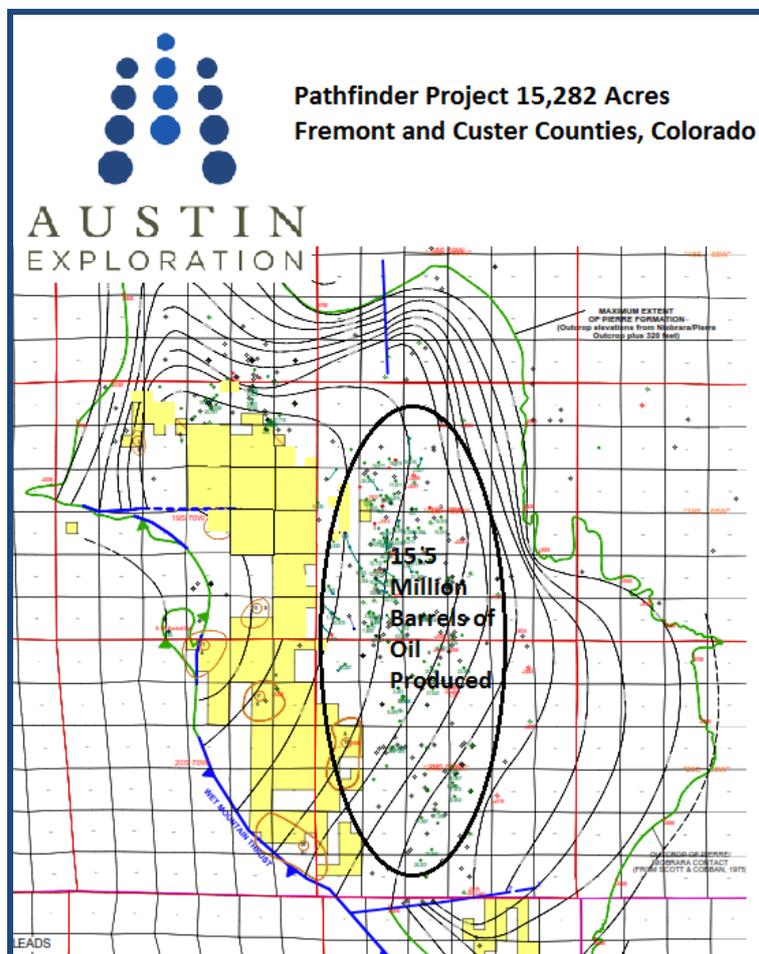
- **Pathfinder Project, Fremont County, Colorado**
- **100% Working Interest in 15,282 acre property in the DJ Basin**
- **Primary hydrocarbon targets: Niobrara Shale & Pierre Shale**
- **Secondary Targets: Codell, Greenhorn, Grenaros and Dakota**
- **Drilling of Austin's C18#2 well targeting production from the Pierre formation has commenced**
- **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
- Operations have recommenced in April following a temporary halt in observance of Colorado State Wildlife regulations which prohibit ground disturbance due to elk breeding in the winter months
- Drilling results expected by the end of May
- Well satisfies lease commitments for full acreage retention
- The Company secured an Atlas Copco RD20 Drill Rig and all associated machinery through a strategic low cost drilling rig rental agreement
- A dedicated drill rig rental agreement at Austin's Pathfinder property significantly reduces ongoing development costs and increases operational efficiencies

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- 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



The above map illustrates Austin’s 15,282 acre property highlighted in yellow. The Pathfinder property sits directly adjacent to an area in Fremont County that has produced approx. 16 million barrels of oil 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.

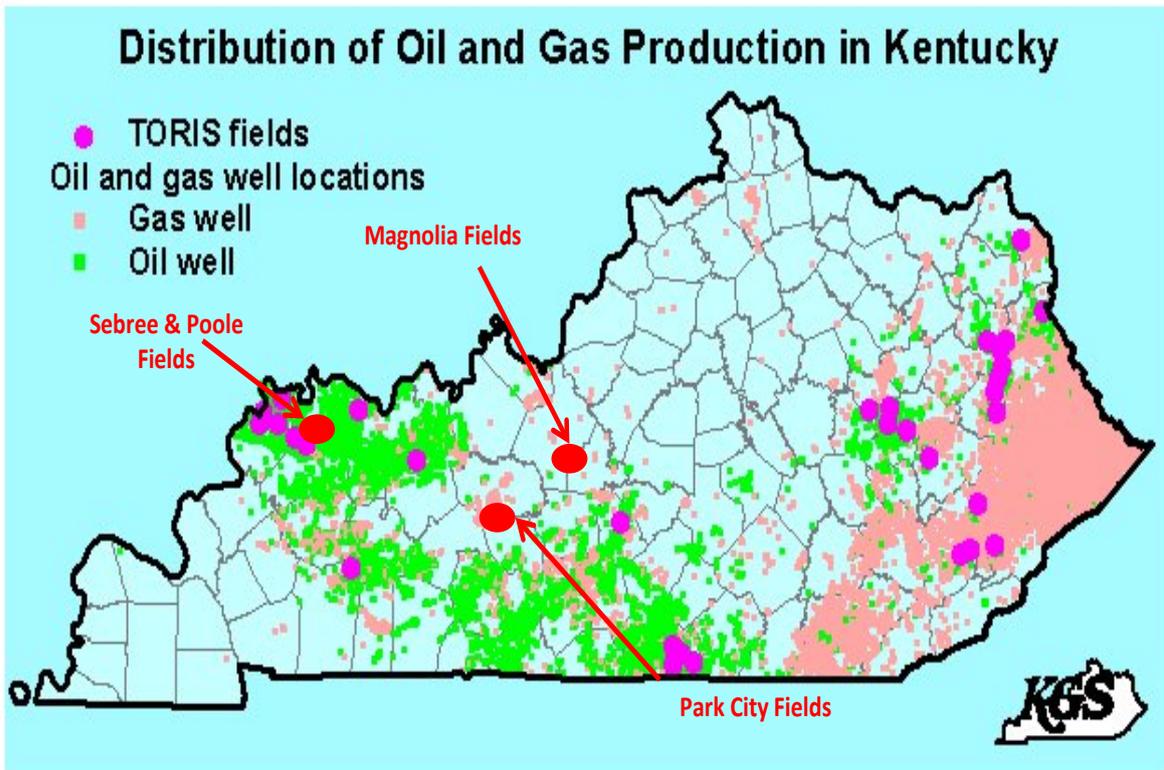
EASTERN BUSINESS UNIT (KENTUCKY)

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 of 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.

TEXAS BUSINESS UNIT

VP & General Manager:

Mr. Aaron J. Goss

- Birch Eagle Ford Project, Burleson County, Texas
- 100% Working Interest / 75% Net Revenue Interest
- One producing vertical well oil and gas well producing approx. 3 Boepd
- Yolanda Dual Austin Chalk Well. Dimmitt County, Texas
- Working Interest 36%, NRI = 27.6%
- One producing horizontal Austin Chalk Well producing approx. 5 -10 Bopd
- Well drilled and completed in 2010. Initial Production rate = ~ 300 BO

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.