



AUSTIN EXPLORATION

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



Marco Polo # 1 well – gas being flared ahead of flow tests for oil

Second Quarter Report FY2017

For the period ended 31 December 2016

With additional information on subsequently completed activities

REVIEW OF QUARTERLY OPERATIONS AND ACTIVITIES

Quarterly Highlights

- **First commercial oil production commences in Colorado with Magellan #1 well**
- **The oil being produced from the Pierre formation is a high quality, light sweet crude with a API gravity of 35 – 37 and sulfur < 0.1%**
- **Initial production rate of 98 barrels per day of oil recorded as well as very encouraging gas flows**
- **Oil discovery confirmed a material extension of the 15 million barrel adjacent Florence Oil Field**
- **Marco Polo & Columbus wells were successfully drilled and intersected large gas pockets in the Pierre formation. Oil flow testing will commence when gas pressures have been safely bled down**
- **Significant Pathfinder project expansion underway with acquisition of neighboring adjacent oil and gas field in Colorado**
- **The Company entered into a Gas Sales MOU for the Pathfinder project**
- **A major Reserve and Resource assessment is being completed over the Pathfinder Project by world renowned oil and gas Engineering firm, Gustavson Associates, following Austin’s oil and gas discoveries in Colorado**
- **Production success has established first proved oil reserves which are bankable and a significant step forward for the long term and full scale production of the Pathfinder project.**

REVIEW OF OPERATIONS AND ACTIVITIES

Austin Exploration Limited (“Austin” or “the Company”) (ASX: AKK) is an oil and gas exploration and production company with working interests and net revenue interests in three proven US oil and gas provinces: Colorado, Kentucky and Texas. Austin is the operator of its Colorado and Kentucky projects.

Austin is proud of its outstanding safety and environmental record, with only one lost time accident and zero environmental incidents in 10 years of operations.

The second fiscal quarter of 2016 was a very busy and successful quarter for the Company that saw a tremendous amount of progress and closed out an extremely important and successful year for the Company.

In a year that saw the oil price fall to \$26p/bbl, which forced more than 200 North American oil and gas companies file for bankruptcy, Austin finished 2016 with no debt, expanded its flagship property in Colorado to 15,773 acres, and achieved first production success with its Colorado drilling campaign.

The Company’s aggressive exploration campaign has significantly de-risked the properties exploration profile and paves the way for the Company to swiftly transition to a full scale oil and gas development program starting in 2017.

The Company completed a successful back-to-back three well program targeting oil from the Pierre formation. These wells were drilled internally and on-budget by Austin’s Team and all three wells intersected significant volumes of hydrocarbons.

The first well drilled, the Magellan #1, is now in production and has provided a boost to cash flows. The second and third wells, the Marco Polo # 1 and the Columbus # 1, have both intersected significant pockets of gas, and Austin's engineers are currently flaring the gas to bleed off the high gas pressures.

The Company will continue to bleed down the gas until it is safe to allow for oil flow testing operations to commence.

The gas volumes emanating from Marco Polo #1 and Columbus #1 is highly encouraging and potentially an early indication that oil reserves remain in virgin territory. Under initial reservoir conditions in a formation, gas is found in solution in crude oil. As reservoir pressure decreases, less gas can be contained in solution in the oil, and the gas bubbles out as a separate phase in the reservoir formation.

The exploration success achieved via the Company's back-to-back three well drilling program, where hydrocarbons were discovered on every well, has enabled the Company to move forward with its maiden reserves report over the Pathfinder project as well as an extensive oil and gas resources study over the expanded 15,733 acre Pathfinder property in Colorado.

The independent, third party reserves and resources report is being completed by Gustavson Associates, a world renowned oil and gas engineering firm. The Company looks forward to the completion of this report and importantly, the first bankable reserves from this filed which is a significant step toward full scale development of the Pathfinder property.

The Company was extremely pleased to announce in December that it had entered into an agreement with Incremental Oil and Gas ("Incremental" or "IOG") to acquire Incremental Oil and Gas (Florence) LLC which includes 100% of its 2,436 acre Florence Oilfield acreage and oil production in Colorado for US\$2 million.

Current production is approximately 52 barrels of oil per day from the Pierre formation. The acquisition includes an extensive amount of scientific data and intellectual property including high definition 3D seismic, Mud Logs, Camera Logs, Sonic Logs, electric logs and Geophysical analysis which covers approximately 50% of the Florence field.

This acquisition illustrates Austin's focus to the growth and expansion its world class Pathfinder property in Colorado as the Company moves towards a large 20,000 acre position in Fremont County, USA. Not only will this acquisition enable Austin to accelerate the development of the field, but will also save the company millions of dollars in scientific and operational costs. Austin is acquiring the assets on highly attractive terms. The property was acquired by Incremental in July 2012 for US\$12.25m. Due Diligence is ongoing and is progressing smoothly with the closing of this acquisition expected to occur in March.

Finally, the Company is highly encouraged to have entered in to a Memorandum of Understanding (MOU) with Lionheart Refining & Recycling LLC to sell and supply natural gas to a clean tech turbine system which will convert natural gas produced by Austin at its Colorado Pathfinder project into electricity. Under the MOU, Lionheart would fund and operate the turbines.

Austin was approached due to a power shortage that has been created by the rapid growth of the legalised marijuana growing farming in south Eastern Colorado, where Austin's Pathfinder property is located. Austin's Pathfinder property is ideally located to supply energy to this rapidly expanding market.

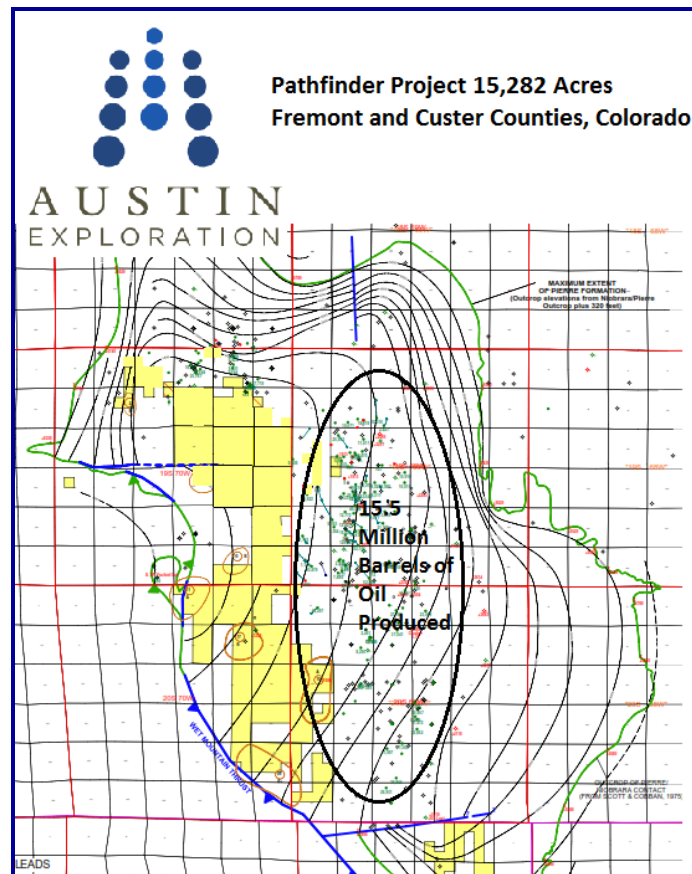
Upon successful execution, this material agreement will create a sales channel for the large volumes of gas that the field is capable of producing from both the Niobrara and Pierre formations. The Company can confirm that steady progress is being made towards the execution of binding agreements which it expects to have finalized in the first half of 2017.

Austin's Board and US-based Management team are focused on, and committed to, driving shareholder value and looks forward to further success in the coming quarter.

COLORADO BUSINESS UNIT

Austin is the Operator

- Pathfinder Project, Fremont County, Colorado
- 100% Working Interest in 15,773 acre property in the DJ Basin
- Primary hydrocarbon targets: Pierre Shale & Niobrara Shale Formations
- Secondary Targets: Codell, Greenhorn, Grenaros and Dakota Formations



The above map illustrates Austin's 15,773 acre property highlighted in yellow. The Pathfinder property sits directly adjacent to an area in Fremont County that has produced more than 15 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.

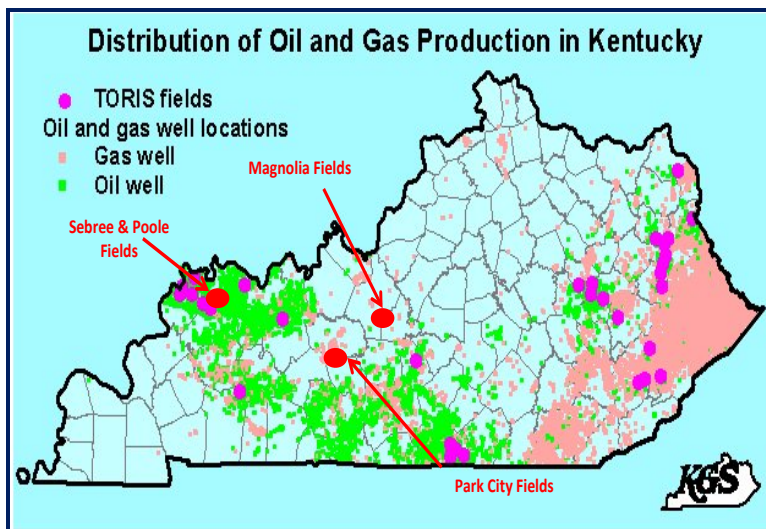
EASTERN BUSINESS UNIT (KENTUCKY)

Austin is the Operator

Kentucky Exploration LLC. Approx. 3000 acre 50/50 Joint Venture with private Australian Investment Company

- Primary Hydrocarbon targets: Jackson Formation, Cyprus Formation, Niagra Sand, and McCloskey Formation
- Secondary Targets: Palestine, Waltersburg, Fort Payne, New Albany Shale, Hardensburg Formations
- Conventional reservoir objectives and vertical drilling utilised
- Continual engineering program underway designed to maximise production and operating efficiencies

- 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 above map illustrates Austin Exploration's leases in Kentucky

TEXAS OIL WELLS

- Birch Eagle Ford Project, Burleson County, Texas
- 100% Working Interest / 75% Net Revenue Interest
- One producing vertical oil and gas well producing approximately 3 BOEPD
- Yolanda Dual Austin Chalk Well. Dimmitt County, Texas
- 36% Working Interest / 27.6% Net Revenue Interest

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 quarter. With continual 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 Florence Colorado as well as several OSHA safety programs that are held throughout the year.

The Company is proud that it maintains an impeccable safety record with only one Lost Time Accident occurring in its 10 years of operations and an unblemished environmental record with no phase 1 incidents ever having been recorded.