Notice of Extraordinary General Meeting and Explanatory Memorandum

Armour Energy Limited ACN 141 198 414

Date of Meeting:	Friday, 30 October 2015
Time of Meeting:	2:00pm (Brisbane time)
Place of Meeting:	HopgoodGanim Level 7, Waterfront Place 1 Eagle Street, Brisbane, Queensland

Notice of Extraordinary General Meeting

Notice is given that an Extraordinary General Meeting of Shareholders of Armour Energy Limited ACN 141 198 414 (**Company**) will be held at HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street Brisbane, Queensland, on Friday, 30 October 2015 at 2:00pm (Brisbane time).

Agenda

Ordinary business

1. Resolution 1 – Approval of agreements with AEGP Australia Pty Ltd

To consider and, if thought fit, pass the following resolution with or without amendment, as an Ordinary Resolution of the Company:

"That, subject to the approval of Resolutions 2 and 3, for the purposes of Listing Rule 7.9 and all other purposes, the terms of, and the transactions contemplated by, the following agreements entered into by the Company with AEGP Australia Pty Ltd on 11 September 2015 be approved and the Company be authorised, with effect from the passing of this Resolution 1, to proceed with:

(a) *the Armour Farm-out Agreement;*

(b) *the Operating Agreement;*

(c) *the Armour Option Deed; and*

(d) *the Armour Share Subscription Agreement,*

*pursuant to the terms and conditions of each of those agreements (**American Energy Transaction**), the details of which are summarised in the Explanatory Memorandum accompanying this Notice."*

2. Resolution 2 – Approval of issue of shares to AEGP Australia Pty Ltd

To consider and, if thought fit, pass the following resolution with or without amendment, as an Ordinary Resolution of the Company:

"That, subject to the approval of Resolutions 1 and 3, for the purposes Listing Rule 7.1 and Listing Rule 7.9 and for all other purposes, the Company be authorised to issue a maximum of 35,763,095 shares at an issue price of 20 cents per shares (for a total subscription amount of up to $7,152,619) to AEGP Australia Pty Ltd on the terms and conditions under the Armour Share Subscription Agreement as specified in the Explanatory Memorandum accompanying this Notice."

Voting exclusion statement

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Ordinary Resolution by:

(a) AEGP Australia Pty Ltd; and

(b) an associate of AEGP Australia Pty Ltd.

However, the Company need not disregard a vote if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

3. Resolution 3 – Approval of issue of options to AEGP Australia Pty Ltd

To consider and, if thought fit, pass the following resolution with or without amendment, as an Ordinary Resolution of the Company:

"That, subject to the approval of Resolutions 1 and 2, for the purposes Listing Rule 7.1 and Listing Rule 7.9 and for all other purposes, the Company be authorised to issue 24,000,000 options for ordinary shares in the Company to AEGP Australia Pty Ltd having the following terms:

(a) *12,000,000 options having an exercise price of 25 cents and an expiry date of 3 years from the date of issue;*

(b) *6,000,000 options having an exercise price of 40 cents and an expiry date of 5 years from the date of issue; and*

(c) *6,000,000 options having an exercise price of 50 cents and an expiry date of 5 years from the date of issue,*

and otherwise being on the terms and conditions under the Armour Option Deed as specified in the Explanatory Memorandum accompanying this Notice."

Voting exclusion statement

In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this Ordinary Resolution by:

(a) AEGP Australia Pty Ltd; and

(b) an associate of AEGP Australia Pty Ltd.

However, the Company need not disregard a vote if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

General business

To consider any other business as may be lawfully put forward in accordance with the Constitution of the Company.

By order of the board

Mr Karl Schlobohm
Company Secretary
30 September 2015

Explanatory Memorandum

1. Introduction

This Explanatory Memorandum is provided to Shareholders of Armour Energy Limited ACN 141 198 414 (**Company**) to explain the resolutions to be put to Shareholders at the Extraordinary General Meeting to be held at HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street Brisbane, Queensland, on Friday, 30 October 2015 at 2:00pm (Brisbane time).

This Explanatory Memorandum contains sections 2, 3, 4 and 5 which provide a comprehensive outline of the American Energy Transaction and includes all information required to be provided to Shareholders under the ASX Listing Rules.

Shareholders are also referred to the AE Independent Expert Report prepared by BDO that concludes that the American Energy Transaction is fair and reasonable to the non-associated Shareholders. A copy of the AE Independent Expert's Report is attached to this Notice as Annexure E and Shareholders are encouraged to consider the report before voting on Resolutions 1, 2 and 3.

The Directors recommend Shareholders read the accompanying Notice of Meeting, this Explanatory Memorandum and the AE Independent Expert report in full before making any decision in relation to the resolutions 1, 2 and 3.

Shareholders should also carefully read sections 2.8 and 2.9 in relation to the WestSide Offer. The WestSide Offer potentially represents an alternative transaction to the American Energy Transaction. In addition, the entry by the Company into the American Energy Transaction and the issue of the Placement Shares and AE Options contemplated under that transaction constitutes a breach of the Conditions of the WestSide Offer. At as the date of the accompanying Notice of Meeting, WestSide has stated (in its ASX announcement on 22 September 2015) that it intends to exercise its right to withdraw the WestSide Offer (or to allow it to lapse) for breach of the Conditions in relation to the Northern Territory farm-out should the Company hold this Meeting before the expiration of the WestSide Offer and Shareholders vote in favour of the American Energy Transaction. At the same time, WestSide has continued to reserve its position to exercise its right of withdrawal earlier based upon the entry into the American Energy Transaction. WestSide has not indicated its intentions in the event that the American Energy Transaction is not approved at the Meeting. Accordingly, shareholders will need to consider the impact of approving the Resolutions under this Notice on the Conditions of the WestSide Offer before making any decision in relation to these Resolutions.

The Board recommends that Shareholders vote in favour of each of the Resolutions and approve the American Energy Transaction for the reasons specified in section 2.9.

Terms used in this Explanatory Memorandum are defined in Section 6 of this Explanatory Memorandum.

2. Background to Resolutions 1, 2 and 3 – Transaction with AEGP Australia Pty Ltd

2.1 Overview

As announced by the Company to the ASX on 11 September 2015, the Company has entered into agreements with AEGP Australia Pty Ltd (**AEGP**), an Australian affiliate of American Energy Partners, LP (**American Energy**), for a farm-out that will accelerate exploration and development of the Company's McArthur Basin oil and gas tenements in the Northern Territory of Australia (**American Energy Transaction**). This followed the announcement to ASX on 20 August 2015 that the Company had signed a letter of intent with American Energy in relation to a farm-out of these Northern Territory tenements.

The agreements entered into by the Company with AEGP comprise:

(a) a farm-out agreement providing for AEGP to spend up to US$130m over five years during Phase 1 (together with a payment to the Company of up to US$13m and further potential bonus payments totalling up to US$10m) to earn 75% of the Farm-in Tenements in the McArthur Basin (the **Armour Farm-out Agreement**);

(b) an operating agreement allowing AEGP to have the operational responsibility of the Farm-in Tenements during the duration of the Armour Farm-out Agreement (the **Operating Agreement**);

(c) an agreement for the issue of 24,000,000 AE Options to AEGP on closing of the Farm-out Agreement (subject to pro-rata adjustment) (the **Armour Option Deed**); and

(d) a placement agreement for the placement of Shares which will comprising 9.99% of the issued share capital of the Company (Placement Shares) to be issued at an issue price of 20 cents in two tranches of shares comprising 5.00% of the issued capital (determined at the time of issue of the first tranche) upon obtaining shareholder approvals and shares comprising 4.99% of the issued capital (determined at the time of the issue of the first tranche) on closing of the Farm-out Agreement (the **Armour Share Subscription Agreement**).

These agreements provide US$130m in Phase One funding and will assist the Company to access up to US$100m of debt funding for Phase Two appraisal and development. The arrangements also provide the Company with a potential pro forma cash position of approximately A$48m.

Full details in relation to these agreements are set out below and in Sections 3, 4 and 5 and Annexures A, B, C and D.

2.2 Key Elements of the Proposed Transaction

The American Energy Transaction contemplates the following key commercial terms:

(a) **Conditions Precedent**

The closing of the Armour Farm-out Agreement is subject to a number of conditions precedent, including:

(1) FIRB approval;

(2) approval by Armour Shareholders;

(3) regulatory approval under the Northern Territory Petroleum Act;

(4) due diligence to be satisfied within 120 days from entry into the Armour Farm-out Agreement (ie. 9 January 2016);

(5) AEGP is registered for GST;

(6) no court orders or Government decisions are in place which materially adversely affect the transaction agreements;

(7) assignment of interest in native title agreements to AEGP; and

(8) entry into the Armour Option Deed and the Armour Share Subscription Agreement.

Other than the due diligence condition, all other conditions must be satisfied within 180 days from entry into the Armour Farm-out Agreement (ie. 9 March 2016).

The Armour Share Subscription Agreement is subject to:

(1) approval by Armour Shareholders; and

(2) approval of the Armour Farm-out Agreement by Armour Shareholders,

which conditions must be satisfied by 31 October 2015.

The Armour Option Deed is subject to:

(3) approval by Armour Shareholders; and

(4) Completion of the Armour Farm-out Agreement,

which conditions must be satisfied by 31 October 2015.

(b) **Commercial terms**

(1) AEGP will farm-in to the Farm-in Tenements owned by the Company in the McArthur Basin region of the Northern Territory covering approximately 29.3 million acres;

(2) AEGP will carry 100% of Armour's share of expenditure during a single phase work program of up to US$130million (**Phase One**), following which the parties will form a joint venture;

(3) Armour will transfer a 75% working interest and operatorship in the Farm-in Tenements to AEGP, subject to adjustment if the program is not completed. Armour will reclaim operatorship if AEGP does not earn at least a 50.1% interest in the tenements;

(4) The work program will be agreed between Armour and AEGP and designed to rapidly identify an area with the greatest likelihood of supporting an economic petroleum development over a production area of not less than 1 million acres;

(5) AEGP will maintain the Farm-in Tenements in good standing;

(6) AEGP will pay Armour US$13million in cash upon closing of the transaction and a further US$3million on grant and transfer of interests in EP177 and EP178 to AEGP, in addition to US$7million upon the earlier of the grant of production licences over at least 1 million acres, or grant and transfer of farm-in interests in the remaining Northern Territory tenements to AEGP;

(7) AEGP will nominate a Director to be appointed to the Armour Board upon the issue of the second tranche of the Placement Shares;

(8) AEGP can withdraw in the event that there is a material adverse change prior to closing of the Armour Farm-out Agreement;

(9) AEGP will have control the design and implementation of the work program while it holds a working interest of 75% or more, with Armour acting in an advisory capacity in relation to the Phase 1 work program;

(10) Armour will second employees to AEGP to support the effective execution of the work program;

(11) Armour has agreed to issue to AEGP the following 24,000,000 unlisted options (being the AE Options):

Number	Exercise price per share	Option life
12,000,000	25c	3 years
6,000,000	40c	5 years
6,000,000	50c	5 years

(12) A placement to AEGP of fully paid ordinary shares in the Company at 20c per share representing 9.99% of the issued capital of the Company (being the Placement Shares), for cash proceeds to Armour of $6.76 million (calculated on the basis of the existing issued share capital of the Company). The Placement Shares will be issued in two tranches with Placement Shares representing 5.00% of the issued capital (determined at the time of issue of the first tranche) issued after Armour obtains shareholder approvals and the balance Placement Shares representing 4.99% of the issued capital (determined at the time of issue of the first tranche) to be issued on closing of the Farm-out Agreement.

Further details in relation to these agreements are set out below and in Sections 3, 4 and 5 and Annexures A, B, C and D.

2.3 Rationale for the American Energy Transaction

The transaction is expected to accelerate the development of Armour's Northern Territory tenements and increases its cash position to fund the production start-up and development of its recently acquired Roma Shelf oil and gas project.

2.4 About American Energy Partners, LP

American Energy Partners, LP is an oil and natural gas operating and asset management company located in Oklahoma City, Oklahoma, U.S.A. American Energy seeks to deliver best-in-class financial and operating results to investors and partners through industry-leading capabilities in developing and managing oil and natural gas assets in premier onshore U.S. and international oil and natural gas fields. Founded in April 2013 by Aubrey K. McClendon, American Energy has grown to 450 employees and has raised over US$14 billion in equity and debt across seven independently financed oil and gas businesses.

Previously, Mr McClendon was co-founder, Chairman and CEO of Chesapeake Energy Corporation (**Chesapeake**) from 1989 until 2013. Under his leadership, Chesapeake grew from a start-up to the second largest natural gas producer and the 11th largest oil producer in the U.S. Mr. McClendon and members of American Energy have been involved in the drilling of over 12,000 horizontal shale wells. Under McClendon, Chesapeake was widely credited with leading the US energy oil and natural gas unconventional resource revolution.

American Energy has focused on developing custom-built play-specific and strategy-specific companies, rather than combining varied assets into a single company, and leveraging its human resources across the various companies. It has accomplished this by leveraging a management services model whereby it provides substantially all of the affiliated companies' required operational services, as well as support services.

American Energy's primary institutional private equity partner to date has been The Energy and Minerals Group (**EMG**), a Houston, Texas, U.S.A. based firm with regulatory assets under management of $US 16.8 billion. Additional equity capital has been provided by First Reserve Corporation, a private equity firm based in Greenwich, Connecticut, U.S.A. focused on energy investments since 1978. American Energy's platform companies have been capitalised with over $US 5 billion of common equity from EMG, First Reserve, American Energy management and other investors.

Further information regarding American Energy Partners, LP is available on their website at www.americanenergypartners.com.

2.5 **Effect of the Transaction on the Company**

(a) **Cash position**

Based on the cash position at 30 June 2015 of A$8.5m, after receipt of:

(1) cash payment of US$13m (approximately A$18.59m) on closing of the Armour Farm-out Agreement;

(2) subscription amount of up to A$6.76m for the Placement Shares (calculated on the basis of the existing issued share capital of the Company);

(3) bonus payment of US$3m (approximately A$4.29m) on the grant and transfer of interests in EP177 and EP178; and

(4) bonus payment of US$7m (approximately A$10.01m) upon the earlier of the grant of production licences over at least one million acres, or the grant and transfer of farm-in interests in the remaining Northern Territory tenements to AEGP,

the pro forma cash position of the Company would be approximately A$48.15m (or A$33.85m before the bonus payments).

These calculations are based on the audited accounts of the Company as at 30 June 2015 and a $A/$US exchange rate of $0.70.

(b) **Issued capital**

As at the date of the Notice of Meeting, the Company has 304,635,766 Shares on issue and 20,480,000 Existing Options on issue.

If Resolutions 1, 2 and 3 are approved, AEGP will receive (assuming that no Existing Options are exercised and no other Shares are issued):

(1) 33,810,813 Placement Shares in two tranches as follows:

(A) 16,922,311 Placement Shares as soon as practicable after the Meeting; and

(B) 16,888,502 Placement Shares upon close-out of the Armour Farm-out Agreement; and

(2) 24,000,000 AE Options.

Accordingly, AEGP will have (assuming that no Existing Options are exercised and no other Shares are issued):

(1) a 5.26% interest in the Company upon receipt of the first tranche of Placement Shares after the Meeting;

(2) a 9.99% interest in the Company upon receipt of the second tranche of Placement Shares upon close-out of the Armour Farm-out Agreement; and

(3) a 15.95% interest in the Company if all AE Options are issued upon close-out of the Armour Farm-out Agreement and are exercised by AEGP.

If any of the Existing Options are exercised, then the number of Placement Shares to be issued will be adjusted accordingly (provided that the interest held in the Company immediately after the issue of all Placement Shares will not exceed 9.99%).

2.6 **Shareholder approval**

Subject to the requirements for approval under Listing Rules 7.1 and 7.9 in relation to the issue of the Placement Shares and the grant of the AE Options (as discussed below), there is no requirement for the Company to seek shareholder approval under either the Corporations Act or the Listing Rules for the entry into or performance of the Armour Farm-out Agreement.

However, it is a condition precedent of the Armour Farm-out Agreement that the Company seek shareholder approval.

Furthermore, the Board is of the view that the Armour Farm-out Agreement is of such importance to the future of the Company's interest in the McArthur Basin tenements and future development of its North-West Queensland tenements and the Roma Shelf oil and gas project, that the Board has decided that in the interests of good corporate governance, it will seek shareholder approval in the terms set out in Resolutions 1, 2 and 3.

The issue of the AE Options and the Placement Shares requires approval under Listing Rule 7.1 as explained in sections 4.2 and 5.2 below.

Furthermore, as the Company is the subject of the WestSide Offer, the issue of the AE Options and the Placement Shares also require approval under Listing Rule 7.9 as explained in section 2.9 below.

Finally, the Takeovers Panel may, under its Guidance Note 12, make a declaration of unacceptable circumstances if the Company takes actions which could frustrate a bid or potential bid, such as by disposing of a significant asset or issuing shares or convertible securities. However, an action may not lead to a declaration of unacceptable circumstances if the action creates for shareholders a choice between proposals. Accordingly, if an application were made by WestSide to the Takeovers Panel, the entry into the American Energy Transaction may be found by the Takeovers Panel to be a frustrating action leading to a declaration of unacceptable circumstances. This may be overcome by the Company seeking, and obtaining, shareholder approval for the American Energy Transaction and giving shareholders a choice between the American Energy Transaction and the WestSide Offer.

Resolutions 1, 2 and 3 are each subject to the approval of the other of those resolutions. Accordingly, if any of Resolutions 1, 2 or 3 are defeated, then the American Energy Transaction will not proceed.

2.7 **Independent Expert Report**

Notwithstanding that there is no regulatory requirement under the Corporations Act or the Listing Rules to obtain an independent experts report, the directors of the Company have also commissioned, in the interests of good governance, the Independent Expert to prepare a report on the question of whether the American Energy Transaction is fair and reasonable to the Shareholders not associated with the transaction. That report is attached to this Explanatory Memorandum as Annexure E.

In the AE Independent Expert's Report attached as Annexure E, BDO confirms that in their opinion, in the absence of any other information, the entry into the American Energy Transaction is fair and reasonable to the Company's Shareholders whose votes in relation to Resolutions 1, 2 and 3 are not to be disregarded.

(a) Fairness

In forming their opinion in relation to the fairness of the American Energy Transaction, BDO has assessed the value of the interest obtained by AEGP interest in the Company's Northern Territory petroleum assets against the value of the consideration received by the Company under the American Energy Transaction. Details of the fairness assessment of the Independent Expert are set out in section 8 of the AE Independent Expert's Report.

It is the Independent Experts view that the value of the consideration offered materially overlaps the value of the Northern Territory petroleum assets and the preferred value of those assets is within the range of the value of the consideration. After considering the information as set out in the AE Independent Experts Report, it is the Independent Experts view that the American Energy Transaction is fair to the Armour Shareholders as at the date of the AE Independent Experts Report.

(b) Reasonableness: Key Advantages and Disadvantages of the American Energy Transaction

BDO has also considered the reasonableness of the American Energy Transaction in terms of the advantages and disadvantages of the American Energy Transaction. Details of the reasonableness assessment of the Independent Expert are set out in section 9 of the AE Independent Expert's Report.

In forming the opinion that the American Energy Transaction is reasonable, BDO have noted the following:

The advantages of the American Energy Transaction include:

(1) The American Energy Transaction is fair to Armour Shareholders;

(2) Shareholders continue to have exposure to the Company's Northern Territory petroleum assets ;

(3) the cash consideration will assist to fund other operations and corporate costs;

(4) AEGP's assistance with capital raising of up to $US 130 million for phase two of development; and

(5) AEGP's working interest is adjusted if the work program is not complete; and

(6) operatorship reverts to the Company if AEGP's working interest is adjusted below 50.1%.

The disadvantages of the American Energy Transaction include:

(1) potential withdrawal of Westside Bid;

(2) the American Energy Transaction is conditional;

(3) the value of free carry consideration during Phase One is uncertain;

(4) Armour Energy is not the operator of the relevant tenements and AEGP's working interest is not adjusted until 31 Dec 2020; and

(5) The Northern Territory petroleum assets are subject to a joint operating agreement.

After considering the advantages and disadvantages of the American Energy Transaction, it is the Independent Experts view that the American Energy Transaction is reasonable to the Armour Shareholders as at the date of the AE Independent Experts Report.

Further details regarding the analysis undertaken by the Independent Expert and the Independent Expert's conclusions are set out in the AE Independent Expert's Report contained in Annexure E of this Explanatory Memorandum.

Shareholders are urged to read the AE Independent Expert's Report before voting on Resolutions 1, 2 and 3.

2.8 WestSide Offer

On 31 August 2015, WestSide announced its intention to make the WestSide Offer. This followed the Company's announcement to the ASX on 20 August 2015 in relation to the letter of intent with AEGP but preceded the announcement on 14 September 2015 in relation to the entry into the binding agreements for the American Energy Transaction.

The WestSide Offer is subject to the Conditions, which relevantly include:

(a) WestSide achieving at least 50.1% acceptances;

(b) the farm-out aspect of the American Energy Transaction not being entered into;

(c) prescribed occurrences including:

(1) the Company not issuing any shares or granting an option over Shares or agreeing to make such an issue or grant such an option; and

(2) the Company disposing, or agreeing to dispose, the whole, or a substantial part, of its business or property.

The Conditions place significant restrictions on the Company's ability to undertake corporate activities, such as raising capital by way of equity or raising capital by debt where that involves the issue of convertible notes or the granting of a charge over the Company's assets.

WestSide may waive a Condition that has been breached. If WestSide elects to proceed with the WestSide Offer (irrespective of the current breach of the Conditions and subsequent issue of the Placement Shares as a result of the approval of Resolutions 1, 2 and 3 by Shareholders), AEGP will not be able to accept the WestSide Offer unless a waiver is granted to WestSide by ASIC to allow it to extend the bid to the Placement shares (as the WestSide Offer does not, and may never without a waiver from ASIC, extend to those Shares).

As announced to the ASX on 31 August 2015 and 9 September 2015, the Directors unanimously REJECT the WestSide Offer and advised Shareholders to TAKE NO ACTION in respect of the WestSide Offer, as the Directors believe the WestSide Offer is opportunistic and inadequate and that it significantly undervalues the Company both in terms of its existing assets and the potential value the Company expects to deliver to Shareholders in the near future.

2.9 ASX Listing Rule 7.9

Listing Rule 7.9 prevents an entity which is subject to a takeover from issuing (or agreeing to issue) new securities within three months after it is told in writing that a person is making, or proposing to make, a takeover offer, otherwise than with approval of holders of ordinary securities or within one of the listed exceptions (which include a rights issue, an issue already announced to ASX and shares issued on conversion of options).

As the Company is presently the subject of the WestSide Offer, the Company requires the approval of Resolutions 1, 2 and 3 by Shareholders to enable the Company to issue the Placement Shares and AE Options in compliance with Listing Rule 7.9.

The Board notes that Shareholders may be required to make a choice between the American Energy Transaction and the WestSide Offer in the event WestSide seeks to rely on breaches of the WestSide Offer conditions as a result of the American Energy Transaction.

The reason that Shareholders are required to choose between the two transactions is that the Company is in breach of the Conditions of the WestSide Offer as a result of its entry into the American Energy Transaction and WestSide has announced (in its ASX announcement on 22 September 2015) that it intends to exercise its right to withdraw the WestSide Offer (or to allow it to lapse) for breach of the Conditions in relation to the Northern Territory farm-out should the Company hold this Meeting before the expiration of the WestSide Offer and Shareholders vote in favour of the American Energy Transaction. In the interim, WestSide has continued to reserve its position to exercise its right of withdrawal earlier based upon the entry into the American Energy Transaction. Accordingly, it is WestSide's intention not to proceed with the WestSide Offer if Shareholders approve the American Energy Transaction.

The Directors currently consider that the American Energy Transaction provides a superior alternative to the present WestSide Offer. If the American Energy Transaction becomes unconditional and completes, it would provide short term value via the upfront payments, and long term value if American Energy field programs are rapid providing both strong financial and strong technical endorsement of Armour's acreage by American Energy.

Shareholders could benefit from the opportunity to take part in the upside of discovery and development of Armour's acreage position through a joint venture with American Energy if American Energy earns its interests.

Despite the current intention of WestSide not to proceed with the WestSide Offer as a result of the Shareholders passing the Resolutions, when taking into account all of the above, the conclusions in the AE Independent Expert's Report, and in the absence of any superior proposal, the Directors recommend that Shareholders approve the American Energy Transaction by approving Resolutions 1, 2 and 3.

If WestSide does not proceed with its takeover bid, Shareholders will not have the ability to accept the WestSide Offer. Further, it is possible that the current share price for your Shares on the ASX may drop if the WestSide Offer does not proceed.

At the time of issue of the Notice of Meeting accompanying this Explanatory Memorandum, the Company has not received any indication from WestSide as to how it would exercise its discretion if Shareholders vote to reject the American Energy Transaction. It may be possible that WestSide may elect to proceed with the WestSide Offer if the American Energy Transaction is not approved, but there can be no guarantee that this will be the case. The Company is of the view that it is incumbent upon WestSide to update the market and Shareholders in relation to its full intentions and Shareholders should consider any announcements issued by WestSide with regards to the WestSide Offer and its intentions if the American Energy Transaction is not approved.

You should carefully consider the implications of approving the American Energy Transaction and the resulting ability of WestSide to not proceed with the WestSide Offer – both in terms of the price offered under the WestSide Offer, the value you perceive for your Shares and the market generally for Shares given trading volumes on the ASX.

3. Resolution 1 – Approval of agreements with AEGP Australia Pty Ltd

3.1 Details

Resolution 1 seeks approval by the Shareholders of the Company of the:

(a) Armour Farm-out Agreement;

(b) Operational Agreement;

(c) Armour Option Deed; and

(d) Armour Share Subscription Agreement,

on the terms as specified in Section 2 and Annexures A, B, C and D of this Explanatory Memorandum.

Details of the background to this Resolution 1 are set out in section 2 above.

If Resolution 1 is approved by Shareholders, this authorises the Company to proceed with the transactions and arrangements for the American Energy Transaction on the terms contained in those agreements.

If Resolution 1 is approved, it remains subject to the approval of both Resolution 2 and Resolution 3. The American Energy Transaction will not proceed if this Resolution is not approved.

3.2 Directors' recommendation

Despite the possibility that the WestSide Offer may potentially not proceed, taking into account all considerations referred to in section 2.9 and the conclusions in the AE Independent Expert's Report, the Directors recommend that you vote in favour of Resolution 1.

4. Resolution 2 – Approval of issue of shares to AEGP Australia Pty Ltd

4.1 Introduction

Resolution 2 seeks the approval of Shareholders to the issue of up to 35,763,095 Placement Shares to AEGP under the terms of the Armour Share Subscription Agreement.

Shareholder approval is required under the terms of the Armour Share Subscription Agreement and for the purposes of Listing Rules 7.1 and 7.9 as detailed in sections 4.2 and 2.9 respectively.

The enactment of Resolution 2, if approved, remains subject to the approval of both Resolution 1 and Resolution 3. The American Energy Transaction will not proceed if this Resolution is not approved.

4.2 Regulatory Requirement - ASX Listing Rule 7.1 - Issues exceeding 15% of capital

Listing Rule 7.1 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the twelve month period (**15% Capacity**) without either the prior approval of a majority of disinterested shareholders, or the issue otherwise falls within one of the prescribed exceptions to Listing Rule 7.1 (**15% Rule**).

Equity Securities issued with shareholder approval under ASX Listing Rule 7.1 do not count towards the 15% Capacity.

The Placement Shares are Equity Securities under the Listing Rules.

Therefore the Company is seeking Shareholder approval in accordance with Listing Rule 7.1 to issue the Placement Shares so that these Placement Shares do not count towards the Company's 15% Capacity.

For the purposes of ASX Listing Rule 7.3, the Company advises:

(a) **7.3.1: Maximum number of Securities to be issued**

The maximum number of Placement Shares which may be issued will be 35,763,095.

Assuming that no Existing Options are exercised, the number of Placement Shares to be issued will be 33,810,813 determined on the basis of:

(1) the First Tranche comprising 5.00% of the issued share capital of the Company as at the date of issue of the first tranche; and

(2) the Second Tranche comprising 4.99% of the issued share capital of the Company as at the date of issue of the first tranche .

The Company currently has on issue 304,635,766 Shares and 20,480,000 Existing Options. Assuming that no Existing Options are exercised and no other Shares are issued prior to the date of issue of the first tranche, the number of Placement Shares to be issued will be 33,810,813, with 16,922,311 issued in the first tranche and 16,888,502 issued under the second tranche.

Upon the issue of the First Tranche of the Placement Shares (and assuming that no other Shares have been issued) the Company will have 321,558,077 Shares on issue meaning that the First Tranche would represent 5.26% of the diluted issued capital at the time of issue.

Upon the issue of the Second Tranche of Placement Shares (and assuming that no other Shares have been issued) the Company will have 338,446,579 Shares on issue meaning that the First Tranche and Second Tranche together would represent 9.99% of the diluted issued capital once both tranches have been issued.

If any of the Existing Options are exercised, then the number of Placement Shares to be issued may increase by up to a further 1,952,282 Placement Shares and the interests held in the Company will be adjusted accordingly (provided at all times that the interest held in the Company after the issue of all Placement Shares will not exceed 9.99%).

See sections 2.5and 5.2 in relation to the combined effect of the issue of the Placement Shares and the AE Options.

(b) **7.3.2: Date by which the Company will issue the Securities**

The first tranche of the Placement Shares will be issued on the business day after the Meeting (being within three months of the date of the Meeting).

The second tranche of the Placement Shares will be issued on the date upon which Completion takes place under the Armour Farm-out Agreement, , which must take place no later than 23 March 2016 (being the last date for Completion under the Armour Farm-out Agreement). As the date of issue may occur more than three months after the date of the Meeting, the issue of any Placement Shares after the expiration of that time period is subject to the grant of a waiver by ASX from the operation of Listing Rule 7.3.2. The Company has lodged an application with ASX requesting the grant of a waiver from the operation of that Listing Rule 7.3.2 to enable the issue of Placement Shares more than three months after the date of the Meeting but not later than 23 March 2016. If a waiver is not granted by ASX, the second tranche of the Placement Shares will be issued out of its 15% Capacity at the date of issue or with subsequent shareholder approval.

(c) **7.3.3: Issue price of Equity Securities**

The issue price of the Placement Shares will be 20 cents per shares.

(d) **7.3.4: Allottees of Equity Securities**

The Placement Shares will be issued to AEGP Australia Pty Ltd, an affiliate of American Energy Partners, LP.

(e) **7.3.5: Terms of the Equity Securities**

The Placement Shares will rank pari passu with all other existing Shares on issue in the Company.

(f) **7.3.6: Use of funds raised**

The total funds that will be raised from the issue of the Placement Shares will be used to progress the Company's existing projects and for administration and for general working capital purposes.

(g) **7.3.7: Dates of allotment**

The first tranche of the Placement Shares will be allotted on the business day after the Meeting.

The second tranche of the Placement Shares will be issued on the date of Completion under the Armour Farm-out Agreement which must take place no later than 23 March 2016 (being the last date for Completion under the Armour farm-out Agreement).

(h) **7.3.8: Voting Exclusion Statement**

A voting exclusion statement is included in the Notice of Meeting for Resolution 2.

4.3 Regulatory Requirement - ASX Listing Rule 7.9 – WestSide Offer

Listing Rule 7.9 prevents an entity which is subject to a takeover from issuing (or agreeing to issue) new securities within three months after it is told in writing that a person is making, or proposing to make, a takeover offer, otherwise than with approval of holders of ordinary securities or within one of the listed exceptions (which include a rights issue, an issue already announced to ASX and shares issued on conversion of options).

As the Company is presently the subject of the WestSide Offer, the Company requires the approval of Resolution 2 by Shareholders to enable the Company to issue the Placement Shares in compliance with Listing Rule 7.9.

Refer to section 2.9 for further information.

4.4 Director Recommendation

The recommendation of the Board in relation to Resolution 2 is set out in section 2.9.

5. Resolution 3 – Approval of issue of options to AEGP

5.1 Introduction

Resolution 3 seeks the approval of Shareholders to the issue of the 24,000,000 AE Options to AEGP under the terms of the Armour Option Deed.

Shareholder approval is required under the terms of the Armour Option Deed and for the purposes of Listing Rules 7.1 and 7.9 as detailed in sections 5.2 and 5.3 respectively.

The enactment of Resolution 3, if approved, remains subject to the approval of both Resolution 1 and Resolution 2. The American Energy Transaction will not proceed if this Resolution is not approved.

5.2 ASX Listing Rule 7.1 - Issues exceeding 15% of capital

As explained in Section 4.2, Listing Rule 7.1 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than the 15% Capacity without either the prior approval of a majority of disinterested shareholders, or the issue otherwise falls within one of the prescribed exceptions to Listing Rule 7.1 (**15% Rule**).

Equity Securities issued with shareholder approval under ASX Listing Rule 7.1 do not count towards the 15% Capacity.

The AE Options are Equity Securities under the Listing Rules.

Therefore the Company is seeking Shareholder approval in accordance with Listing Rule 7.1 to issue the AE Options so that these AE Options and Shares issued upon the exercise of the AE Options do not count towards the Company's 15% Capacity.

For the purposes of ASX Listing Rule 7.3, the Company advises:

(a) **7.3.1: Maximum number of Securities to be issued**

The maximum number of Shares that may be issued upon the exercise of the AE Options will be 24,000,000.

The Company currently has on issue 304,635,766 Shares, meaning that shares issued upon the exercise of the AE Options (and assuming no Existing Options are exercised and no other Shares are issued) would represent 7.30% of the diluted issued capital.

When considered with the issue of both tranches of the Placement Shares (and assuming no Existing Options are exercised and no other Shares are issued), the Company will have 362,446,579 Shares on issue meaning that the Shares issued upon exercise of the AE

Options would represent 6.62% and the Placement Shares and AE Options together would represent 15.95% of the diluted issued capital.

If any of the Existing Options are exercised, then the number of Placement Shares to be issued may increase by up to a further 1,952,282 Placement Shares and the maximum interest held in the diluted issued capital of the Company would be reduced to not less than 15.51%.

Under the terms of the Armour Option Deed, AEGP has a top-up right under which additional AE Options may be required to be issued if there has been, with the prior consent of AEGP, an increase in the number of Shares in issue prior to Completion of the Armour Farm-out Agreement. The issue of these additional AE Options will be subject to further shareholder approval by Armour Shareholders if required by the Listing Rules.

(b) **7.3.2: Date by which the Company will issue the Securities**

The AE Options will be issued on the date of Completion under the Armour Farm-out Agreement, provided that Completion of the Armour Farm-out Agreement takes place on or before 31 October 2015.

The AE Options have the following expiry dates:

(1) 12,000,000 AE Options expire 3 years from the date of issue;

(2) 12,000,000 AE Options expire 5 years from the date of issue.

(c) **7.3.3: Issue price of Equity Securities**

The AE Options are issued as part of the American Energy Transaction.

(d) **7.3.4: Grantees of Equity Securities**

The AE Options will be issued to AEGP Australia Pty Ltd, an affiliate of American Energy Partners, LP.

(e) **7.3.5: Terms of the Equity Securities**

The AE Options are issued on the terms specified below and such other terms as specified in Annexure D to this Explanatory Memorandum:

(1) 12,000,000 AE Options have an exercise price of 25 cents per share and expire 3 years from the date of issue;

(2) 6,000,000 AE Options have an exercise price of 40 cents per share and expire 5 years from the date of issue; and

(3) 6,000,000 AE Options have an exercise price of 50 cents per share and expire 5 years from the date of issue.

Any Shares issued upon the exercise of the AE Options will rank pari passu with all other existing Shares on issue in the Company.

(f) **7.3.6: Use of funds raised**

No funds are being raised from the issue of the AE Options.

(g) **7.3.7: Dates of grant**

The AE Options will be granted on the date of Completion under the Armour Farm-out Agreement, which must take place no later than 23 March 2016 (being the last date for Completion under the Armour Farm-out Agreement).

(h) **7.3.8: Voting Exclusion Statement**

A voting exclusion statement is included in the Notice of Meeting for Resolution 3.

5.3 **Regulatory Requirement - ASX Listing Rule 7.9 – WestSide Offer**

Listing Rule 7.9 prevents an entity which is subject to a takeover from issuing (or agreeing to issue) new securities within three months after it is told in writing that a person is making, or proposing to make, a takeover offer, otherwise than with approval of holders of ordinary securities or within one of the listed exceptions (which include a rights issue, an issue already announced to ASX and shares issued on conversion of options).

As the Company is presently the subject of the WestSide Offer, the Company requires the approval of Resolution 3 by Shareholders to enable the Company to issue the AE Options in compliance with Listing Rule 7.9.

Refer to section 2.9 for further information.

5.4 **Director Recommendation**

The recommendation of the Board in relation to Resolution 3 is set out in section 2.9.

6. Interpretation

15% Capacity has the meaning given to that term in section 4.2.

AEGP means AEGP Australia Pty Ltd ACN 605 683 798.

AE Independent Expert's Report means the report of BDO on the fairness and reasonableness of the American Energy Transaction, which is attached as Annexure E.

AE Options means the 24,000,000 options to be issued by the Company to AEGP under the terms of the Armour Option Deed annexed as Annexure D.

American Energy means American Energy Partners, LP.

American Energy Transaction means the transaction as described in section 2.1.

Associated Entity has the meaning given to that term in the Corporations Act.

ASX means ASX Limited.

BDO means BDO Corporate Finance (Qld) Ltd.

Board means board of Directors of the Company.

Business Day means a day on which all banks are open for business generally in Brisbane.

Chair means the person chairing the Meeting.

Company means Armour Energy Limited ACN 141 198 414.

Completion means, with respect to completion of the Armour Farm-out Agreement, the date upon which, after satisfaction or waiver of the conditions precedent to the Armour Farm-out Agreement, closing out of the Armour Farm-out Agreement takes places including payment by AEGP to the Company of the initial payment of US$13m and Armour transfers the 75% working interest and operatorship in the Farm-in Tenements to AEGP.

Conditions means the conditions of the WestSide Offer, as are set out in Appendix 2 of the Replacement Bidder's Statement released on 14 September 2015.

Constitution means the constitution of the Company from time to time.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the directors of the Company.

Equity Securities has the meaning given to that term in the Listing Rules.

Existing Options means options for Shares in the Company issued by the Company as at the date of the Notice.

Explanatory Memorandum means the explanatory statement accompanying this Notice.

Farm-in Tenements means all of the granted and pending tenements in the Northern Territory owned by the Company as identified in the map contained in Annexure A.

Independent Expert means BDO.

Listing Rules means the Listing Rules of the ASX Limited.

Meeting means the Extraordinary General Meeting to be held on 30 October 2015 as convened by the accompanying Notice of Meeting.

Notice of Meeting or **Notice** means the notice of meeting giving notice to shareholders of the Meeting, accompanying this Explanatory Memorandum.

Ordinary Resolution means a resolution passed by more than 50% of the votes at a general meeting of shareholders.

Placement Shares means up to 35,763,095 Shares to be issued by the Company to AEGP under the terms of the Armour Share Subscription Agreement annexed as Annexure C.

Relevant interest has the meaning in section 9 of the Corporations Act.

Resolutions means the resolutions set out in the Notice of Meeting.

Securities has the meaning in section 92(1) of the Corporations Act.

Shareholders means a holder of ordinary Shares in the Company.

Shares means an ordinary fully paid share in the issued capital of the Company.

Subsidiary has the meaning in the Corporations Act.

Surat Basin Assets means:

(a) EP 171, 174, 176, 190, 191 and 192;

(b) EP(A)'s 172, 173, 177, 178, 179, 193, 194, 195 and 196; and

(c) all project records and contracts.

Takeover bid has the meaning given to that term in s 9 Corporations Act.

WestSide means WestSide Corporation Ltd ACN 117 145 516.

WestSide Offer means the offer by WestSide to acquire 100% of the Company's Shares by way of an off-market takeover bid at A$0.12 cash bid per Share the details of which are set out in the Replacement Bidder's Statement lodged with ASIC, the Company and ASX on 14 September 2015 (replacing the Bidder's Statement lodged with ASIC, the Company and ASX on 31 August 2015).

7. Proxy, representative and voting entitlement instructions

Proxies and representatives

Shareholders are entitled to appoint a proxy to attend and vote on their behalf. Where a shareholder is entitled to cast two or more votes at the meeting, they may appoint two proxies. Where more than one proxy is appointed, each proxy may be appointed to represent a specific proportion or number of votes the shareholder may exercise. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes. The proxy may, but need not, be a shareholder of the Company.

Shareholders who are a body corporate are able to appoint representatives to attend and vote at the meeting under Section 250D of the *Corporations Act 2001* (Cth).

The proxy form must be signed by the shareholder or his/her attorney duly authorised in writing or, if the shareholder is a corporation, in a manner permitted by the *Corporations Act.*

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be **deposited at, posted to, or sent by facsimile transmission or email to the address listed below,** not less than 48 hours before the time for holding the meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

By Delivery:
Armour Energy Limited
Level 27, 111 Eagle Street
Brisbane QLD

By Mail:
Armour Energy Limited
GPO Box 5261
Brisbane QLD 4001

By Fax:
07 3303 0681 (or +61 7 3303 0681 from outside Australia)

Online:
kschlobohm@armourenergy.com.au

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company's share registry.

A proxy form is attached to this Notice.

Voting entitlement

For the purposes of determining voting entitlements at the Meeting, shares will be taken to be held by the persons who are registered as holding the shares at 7.00pm Wednesday 28 October 2015. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

Signing instructions

You must sign the proxy form as follows in the spaces provided:

Individual:	Where the holding is in one name, the holder must sign.
Joint Holding:	Where the holding is in more than one name, all of the security holders should sign.
Power of Attorney:	To sign under Power of Attorney, you must have already lodged the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies:	Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of

the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone.

Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary.

Please indicate the office held by signing in the appropriate place.

Proxy Form

STEP 1: APPOINTMENT OF PROXY

I/we .....

of .....

being Shareholder(s) of Armour Energy Limited (Company) hereby appoint as my proxy for the Extraordinary General Meeting of the Company to be held at 2:00pm (Brisbane time) on 30 October 2015 at the offices of HopgoodGanim Lawyers, Level 7, 1 Eagle Street, Brisbane, Queensland and any postponement or adjournment thereof:

☐ the Chairman of the Meeting **OR** (mark with an "X")

Write here the name of the person you are appointing if this person is someone other than the Chairman of the Meeting

If I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman of the Meeting becomes my/our proxy by default) I/we expressly authorise the Chairman of the Meeting to exercise my/our proxy on Resolutions 1, 2 and 3 (except where I/we have indicated a different voting intention below) even if he/she has an interest in the outcome of the resolution/s and that votes cast by the Chairman of the Meeting for those resolutions other than as proxy holder will be disregarded because of that interest.

The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business. This statement expresses the Chairman of the Meeting's intention as at the date of issue of the Notice of Meeting and, in exceptional circumstances, the Chairman of the Meeting may change his/her voting intention for any resolution, in which case an ASX announcement will be made.

If you do not direct your Proxy how to vote, the Proxy may cast your vote as the Proxy thinks fit or may abstain from voting. By signing this appointment you acknowledge that, subject to the *Corporations Act 2001 (Cth)*, the Proxy may cast your vote as the Proxy thinks fit or may abstain from voting. By signing this appointment you acknowledge that, subject to the Corporations Act 2001 (Cth), the Proxy may exercise your proxy even if he/she has an interest in the outcome of the resolution and votes cast by him/her other than as proxy holder will be disregarded because of that interest. If you do **not** want the Proxy to vote in this way, you should direct your vote in accordance with Step 2 below.

If two proxies are appointed, the proportion of voting rights this proxy is authorised to exercise is ……%. (An additional proxy form will be supplied by the Company on request). If you wish to appoint the proxy to exercise voting power over only some of your Shares, the number of Shares in respect of which this proxy is to operate is …….. Shares (Note: proxy will be over all Shares if left blank).

STEP 2: VOTING DIRECTIONS

I/we direct my/our proxy to vote as indicated below:

Resolution	**For**	**Against**	**Abstain**
1. Approval of agreements with AEGP Australia Pty Ltd	☐	☐	☐
2. Approval of issue of shares to AEGP Australia Pty Ltd	☐	☐	☐
3. Approval of issue of options to AEGP Australia Pty Ltd	☐	☐	☐

Sole Director and Secretary (if appointed)	Director	Director/Company Secretary
Contact Name	Contact Daytime Telephone	Date

How to Complete this Proxy Form

1 Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the appropriate box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

3 Votes on Items of Business

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company or you may copy this form.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(b) Return both forms together.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual:	where the holding is in one name, the holder must sign.
Joint Holding:	where the holding is in more than one name, all of the security holders should sign.
Power of Attorney:	To sign under Power of Attorney, you must have already lodged the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies:	Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

6 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be deposited at, posted to, or sent by facsimile transmission or email to the address for the Company listed in section 7 of the Notice of Meeting by 2.00 pm on 28 October 2015, being not later than 48 hours before the commencement of the meeting (or otherwise by such later time and date being not less than 48 hours before the date of any postponed or adjourned meeting). Any Proxy Form received after that time will not be valid for the scheduled meeting.

Annexure A - Terms of Armour Farm-out Agreement

1. Purpose and underlying transaction

The Farm-out Agreement (**FOA**) between AEGP Australia Pty Ltd (**AEGP**) and the Company gives effect to the following transaction:

(a) The Company will, on completion of the FOA, grant AEGP a 75% interest in each of:

(1) six petroleum exploration permits (**Granted EPs**);[1] and

(2) six applications for petroleum exploration permits (which Armour Energy will hold on trust for AEGP and subsequently assign, if and when they are granted) (**EP Applications**)[2]

(together, the **EPs**).

(b) In exchange, AEGP will fund 100% of the capital expenditure to be spent on the EPs (being its own contribution as well as the Company's) until the earlier of:

(1) 31 December 2020; or

(2) the date it has expended a total of:

(A) US$130,000,000, if both of EP Applications 177 and 178 are granted;

(B) US$115,000,000, if only one of those EP Applications is granted; or

(C) US$100,000,000, if neither of those EP Applications are granted

(**Phase One**).

(c) Once Phase One has ended, if Armour Energy is unable to obtain financing on fair market terms, AEGP will assist the Company to obtain finance to fund its 25% share of all future capital expenditure to be spent on the EPs, up to a maximum amount of US$130,000,000 (with such amount reduced dependent on the grant of EP Applications 177 and 178).

2. **Cash consideration**

On completion, AEGP must pay US$13,000,000 to the Company as cash consideration for executing the FOA.

In the future, AEGP will also be required to make the following bonus payments to the Company:

(a) a further US$7,000,000 on the earlier of:

(1) production licences being granted over 1 million acres covered by EPs 171, 176 and 191; or

(2) all EP Applications being granted and a 75% interest being transferred to AEGP; and

(b) a further US$3,000,000 if both EPs 177 and 178 are granted and a 75% interest in them is transferred to AEGP.

3. **Conditions precedent**

The parties to the FOA must use their reasonable endeavours to complete all conditions precedent before 9 March 2016, upon which completion of the FOA can occur.

[1] EPs 171, 174, 176, 190, 191 and 192.
[2] EP(A)s 172, 173, 177, 178, 179, 193, 194, 195 and 196.

Summarily, those conditions precedent relate to the following matters:

(a) Foreign Investment Review Board approval;

(b) approval by the Northern Territory's Minister for Mines and Energy;

(c) AEGP's registration for GST purposes;

(d) the assignment of all relevant native title agreements by the Company to AEGP;

(e) Armour shareholder approval;

(f) a lack of relevant court proceedings on foot at 5:00pm on the day before completion; and

(g) the execution of the Armour Share Subscription Agreement, the Armour Option Deed, the Operating Agreement and a Disclosure Deed Poll.

4. **Steps at completion**

Once the conditions precedent have been satisfied, completion will occur with the following actions:

(a) the Company must provide AEGP with transfer documents which transfer a 75% interest in the Granted EPs;

(b) the Company must provide a duly executed copy of each of the Armour Share Subscription Agreement, the Armour Option Deed, the Operating Agreement and a Disclosure Deed Poll;

(c) AEGP must pay US$13,000,000 cash consideration to the Company;

(d) AEGP automatically becomes the Operator under the Operating Agreement;

(e) all encumbrances over the EPs must be released;

(f) the Company must execute the Deed of Cross-Security exhibited to the Operating Agreement;

(g) the Company must assign all material contracts it has entered into with third parties to AEGP;

(h) all relevant project records must be made available to AEGP.

5. **Company's advisory role**

The FOA is drafted to reflect that AEGP recognises the Company's unique expertise in Australian exploration and mining projects. It grants the Company an advisory role for the duration of operations and provides that AEGP will consult with the Company in relation to:

(a) the design and implementation of work programs;

(b) native title and land access matters; and

(c) the renewal, reduction or relinquishment of any parts of the EPs.

This advisory role supplements the operation of the Operating Agreement, where the Company has a limited role in the Operating Committee (see Annexure B).

AEGP must provide quarterly activity reports to the Company during Phase One. These must compare actual expenditure to previously projected expenditure.

6. **Phase One work program and Operating Agreement**

Between 10% and 15% of the Phase Once expenditure must be spent by AEGP within the first two years of the Phase One work program.

Note more than 35% of the Phase One expenditure is to be spent in the final year of the Phase One work program.

Under the terms of the FOA, Articles 5, 6, 7, 8 10, 11 and 13 of the Operating Agreement (see Annexure B) are not operational for the duration of Phase One of the FOA. AEGP will have sole operational control of the tenements during Phase One, subject to the Company's advisory role.

7. **Consequences of AEGP's failure to complete Phase One**

If AEGP does not expend the amounts listed in paragraph 1(b)(2) above before the end of Phase One on 31 December 2020 (up to $US130,000,000), its interest in the EPs will reduced proportionately and the balance of the interest must be transferred back to the Company.

If AEGP's adjusted interest falls below 50.1%, AEGP must restore the Company as the Operator under the Operating Agreement.

8. **Reimbursement of good standing expenses**

AEGP must reimburse the Company for all expenses incurred to keep the Granted EPs in good standing between the date the FOA was executed (11 September 2015) and completion of the FOA. Any such reimbursement will constitute expenditure which may be counted towards Phase One expenditure.

9. **Employee secondment**

AEGP may seek secondments from the Company's employees to assist with the development and management of the project. This supplements the Company's advisory role.

10. **EGM process**

The FOA sets out a detailed process under which the Company must call and provide notice of the Extraordinary General Meeting of Shareholders to which this notice refers.

11. **Assignment**

The Company cannot assign its rights under the FOA without first obtaining AEGP's consent (which cannot be unreasonably withheld or delayed). AEGP can assign its rights to an affiliate without needing to obtain the Company's consent. AEGP can assign its rights to an unassociated third party with the Company's consent.

AEGP also has a right of first refusal in the event that the Company seeks to assign its rights under the FOA to an unrelated third party. This means that AEGP has a pre-emptive right to acquire the Company's interest on the same terms offered by the unrelated third party. The first right of refusal will be on the basis of the same final terms and conditions as were negotiated by the Company with the proposed transferee or at a cash value agreed by the parties or determined by an independent expert where the Company's sale transaction includes properties which are not included under the FOA.

12. **R&D rebates**

Any R&D rebates obtained by the project will be divided relative to the parties' participating interests (being 75% for AEGP and 25% for the Company from the date of completion until at least the end of Phase One).

13. **ASX announcements**

The Company can release ASX announcements where:

(a) AEGP agrees; or

(b) the Company:

(1) is required to do so by law;

(2) has obtained external legal advice confirming that it is so required; and

(3) has provided that advice to AEGP 24 hours before releasing the announcement (or if not, as soon as was reasonably practicable).

14. **Warranties and indemnity**

The Company has provided reasonably significant warranties under the FOA. In respect of the majority of those warranties, AEGP can only make claims that the Company has breached those warranties:

(a) up until two year after completion; and

(b) if the aggregate claims exceed US$250,000.

Those warranties relating to corporate power, authority, incorporation or similar and in respect of certain business practices will remain in effect for the applicable limitations period under any relevant statute of limitations.

Both parties have given the usual indemnities found in these types of agreements. In addition to this, the Company has the benefit of a disclosure “carve out”, which prevents it from being made liable for any and all claims regarding data that was fairly disclosed to AEGP via the data room.

Annexure B - Terms of Operating Agreement

The Operating Agreement (**OA**) operates in support of the Armour Farm-out Agreement (**FOA**) establishes the rights and obligations of both the Company and the AEGP in relation to the activities to be conducted on the EPs, including the joint exploration and production of petroleum.

At the request of AEGP, the agreement is in the form of the American Association of International Petroleum Negotiators model agreement.

1. **Purpose**

The OA primarily establishes the rights and obligations of both the Company and the AEGP in relation to the activities to be conducted on the EPs, including the joint exploration and production of petroleum.

It contains detailed and specific provisions relating to the project's Operator and Operating Committee.

The Operator under the OA is AEGP (subject to the operation of the FOA in the event that AEGP's participating interest in the project falls below 50.1% as noted in Annexure A).

It is also noted that under the terms of the FOA, Articles 5, 6, 7, 8 10, 11 and 13 of the Operating Agreement are not operational for the duration of Phase One of the FOA. Accordingly, during that period AEGP will have sole control as the Operator (subject to consultation with the Company under the terms of the FOA).

2. **Operator provisions**

Broadly, the OA sets out:

(a) the rights, powers and duties of the Operator;

(b) the extent to which the Operator is liable and indemnified accordingly; and

(c) the process by which an Operator may resign or be removed or replaced.

3. **Operating Committee provisions**

The Operating Committee is to be comprised of one representative from each party.

As noted above, under the FOA, the Operating Committee will not operate during the Phase One expenditure period.

The OA provides, in considerable detail:

(a) how the Operating Committee is to be established;

(b) how the Operating Committee is to call and conduct meetings;

(c) how the Operating Committee is to vote; and

(d) how the Operating Committee will prepare, approve and implement work programs.

The OA provides that a resolution of the Operating Committee can be carried by a participant holding 75% or more of the project's total participating interest. Accordingly, provided that AEGP retains its 75% interest under the FOA, AEGP will effectively have control of the Operating Committee for the duration of the arrangements. If AEGP's participating interest falls below 75% due to a failure to meet Phase One's expenditure requirements (as described at paragraph 1(b)(2) of Annexure A above), then the Company will regain the ability to veto decisions of the Operating Committee.

4. **Technical provisions**

The OA contains a number of technical provisions regarding the conduct of exploration and mining activities on the EPs. It attaches (and refers to):

(a) the preparation and approval of work programs and budgets,;

(b) the preparation and approval of developments plans for commercial discoveries;

(c) the preparation and approval of work programs and budgets during the production phase;

(d) a detailed Accounting Procedure;

(e) a Deed of Cross-Security to be executed by the Company; and

(f) Decommissioning Procedures.

The OA also contains provisions which require the Operator to prepare, establish and comply with a Health, Safety and Environment Plan which is compliant with international standards.

5. **Transfer rights**

Either party can assign its rights under the JOA if:

(a) The prospective assignee executes an instrument (such as a deed) under which it agrees to perform both the assignor's obligations under the JOA and the conditions of each EP;

(b) The other party (or parties) consent to the assignment. That consent:

(1) cannot be unreasonably delayed; and

(2) can only be withheld if the party believes the prospective assignee either lacks the financial capability to perform both its obligations under the JOA and the conditions of each EP, or is in financial circumstances which would make it difficult or impossible to enforce the provisions of the JOA; and

(c) The prospective assignee executes a suitable Deed of Cross-Security.

6. **Jurisdiction**

The JOA is governed by the laws of the State of Texas in the United States of America. Any arbitration under the agreement must also take place in Houston, Texas.

Annexure C - Terms of Armour Share Subscription Agreement

1. Agreement to issue such number of Shares in the Company (Placement Shares) such that AEGP will obtain Shares equal to 9.99% of the issued share capital of the Company as at the date of issue of the first tranche (of two tranches).

2. Issue of the Placement Shares is conditional on:

    a. approval by Armour Shareholders; and

    b. approval of the Armour Farm-out Agreement by Armour Shareholders.

3. The Placement Shares will be issued in two tranches:

    a. Tranche 1 Shares – equal to 5.00% of the issued share capital of the Company as at the date of issue of the Tranche 1 Shares;

    b. Tranche 2 Shares - equal to 4.99% of the issued share capital of the Company as at the date of issue of the Tranche 1 Shares.

4. The Placement Shares will be issued on:

    a. Tranche 1 Shares - on the business day after receipt of approval of Armour Shareholders; and

    b. Tranche 2 Shares - on the date of completion of the Armour Farm-out Agreement

5. Placement Shares must rank equally with all other ordinary shares on issue in the Company.

6. The Placement Shares must be issued to AEGP or a person nominated by AEGP.

7. The Company must cause a statement pursuant to s 708A(5) Corporations Act to be issued and given to ASX in respect of the Placement Shares and apply for quotation of the Placement Shares on ASX in accordance with the Listing Rules and will use reasonable endeavours to obtain quotation of such shares.

8. On the issue of the Tranche 2 Shares, the Company must appoint the person nominated by AEGP as a director of the Company to fill any existing casual vacancy on the Board, with all rights and authorities afforded the other Directors on that Board. The Company agrees to undertake all actions necessary to procure the re-election of the nominated director at such times as such re-election is required under the ASX Listing Rules or the Constitution.

9. The Company undertakes to do all things necessary to ensure that the Placement Shares can be transferred by AEGP without the need for disclosure under Australian law, including by giving ASX a notice under section 708A(6) of the Corporations Act at the time of the issue of the Placement Shares.

10. The Armour Share Subscription Agreement and the Armour Farm-out Agreement are interdependent and the Armour Share Subscription Agreement will automatically terminate if the Armour Farm-out Agreement is terminated before the issue of the Tranche 1 Shares or the issue of Tranche 2 Shares.

Annexure D - Terms of Armour Option Deed

1. 24,000,000 AE Options to subscribe for 1 fully paid share in the capital of the Company be issued in three tranches:
    a. Tranche 1 Options – 12,000,000;
    b. Tranche 2 Options – 6,000,000; and
    c. Tranche 3 Options – 6,000,000.

2. Issue of the AE Options is conditional on:
    a. approval by Armour Shareholders; and
    b. completion of the Armour Farm-out Agreement.

3. If the Conditions Precedent in paragraph 2 above are not satisfied by 31 October 2015, the Armour Option Deed automatically terminates.

4. If the Armour Farm-out Agreement is terminated in accordance with its terms at any time prior to the issue of the AE Options, then this document automatically terminates.

5. The AE Options will be issued at the same time as completion under the Farm-out Agreement.

6. Prior to the issue of the AE Options, the Company cannot issue further securities unless it has first given notice to AEGP and AEGP has given its consent to the issue (not to be unreasonably withheld). During this time, the Company cannot issue securities which would, cumulatively, exceed 15% of the issued share capital (as at 11 September 2015) and other than to raise capital required to fund anticipated expenditure in the Surat Basin Assets.

7. Upon being notified of the number of additional securities to be issued as a result of a further issue of securities under paragraph 4 above, AEGP will have the right to give notice to the Company to increase the number of AE Options AEGP will receive to enable AEGP to maintain its proportionate holding in securities of the Company on a fully diluted basis. Upon the Company receiving notice to issue such further options, and subject to the Company obtaining any shareholder approvals which may be required under the Listing Rules to issue those additional AE Options, the Company will issue such further number of AE Options to AEGP, such that:
    a. 50% of the additional AE Options will be Tranche 1 Options;
    b. 25% of the additional AE Options will be Tranche 2 Options; and
    c. 25% of the additional AE Options will be Tranche 3 Options.

8. Otherwise having the following terms:

Exercise price	(a) Tranche 1 Options - A$0.25 per Option. (b) Tranche 2 Options - A$0.40 per Option. (c) Tranche 3 Options - A$0.50 per Option.
Expiry date	(a) Tranche 1 Options – 3 years from the Option Closing Date (b) Tranche 2 Options – 5 years from the

	Option Closing Date. Tranche 3 Options – 5 years from the Option Closing Date.
Ranking	Shares issued on exercise of options will rank pari passu with all existing ordinary shares of the Company.
How to exercise an option	(a) Each Tranche of Options may be exercised at any time prior to the Expiry Date wholly or in part by delivering a duly completed notice of exercise, together with a cheque for the exercise price per option or pay by telegraphic transfer in immediately available funds, to the Company at any time prior to the expiry date. (b) Upon the valid exercise of a Tranche of Options and payment of the exercise price, the Company will issue fully paid ordinary shares ranking pari passu with the then issued ordinary shares of the Company.
Transferability	Options may be transferred at any time before the expiry date. Options are transferable by any standard form of transfer.
Listing of options	Options will be unlisted.
Dividends	No entitlement to participate in dividends.
Participation in new issues	The Optionholder will be permitted to participate in new issues of securities of the Company to Shareholders generally on the prior exercise of the Options, in which case Optionholder will be afforded the minimum period of notice prescribed under the ASX Listing Rules prior to and inclusive of the books closing date (to determine entitlements to the issue) to exercise the Options.
Effect of corporate restructure following the issue of options	Following any reconstruction, consolidation, subdivision, reduction (by a cancellation of paid up capital that is lost or not represented by available assets where no securities are cancelled), return or pro rata cancellation of the issued capital of the Company: a) the number and/or exercise price of options will be adjusted in compliance with the ASX Listing Rules; and b) subject to provisions with respect to rounding of entitlements as sanctioned by a meeting of shareholders approving a reconstruction of capital, in all other respects the terms of exercise of the options will remain unchanged. This provision is subject to the ASX Listing Rules and in the event of an inconsistency the ASX Listing Rules will prevail.
Pro rata issues	If there is a pro rata issue (other than a bonus issue), the exercise price of an option will be reduced in accordance

	with the following formula: $$O^n = \frac{O - E[P - (S + D)]}{N + 1}$$ Where: O^n = the new exercise price of the option O = the old exercise price of the option E = the number of underlying securities into which one option is exercisable P = the average market price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex right date or the ex entitlements date or if there is no such date then the date chosen by the board of directors of the Company S = the subscription price for a security under the pro rata issue D = the dividend (if any) due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue) N = the number of securities with rights or entitlements that must be held to receive a right to one new security.
Bonus issues	If there is a bonus issue to shareholders of the Company, the number of shares over which the option is exercisable will be increased by the number of shares which the option holder would have received if the option were exercised before the record date for the bonus issue.
Vary Option Terms	The terms of the Options shall only be changed if holders (whose votes are not to be disregarded) of ordinary shares in the Company approve of such a change. However, except as required pursuant to the Anti-Dilution Terms, the terms of the Options shall not be changed to reduce the exercise price, increase the number of Options or change any period for exercise of the Options.
Listing of resultant shares	The Company will apply to the ASX for official quotation of shares issued on the exercise of options.

ARMOUR ENERGY LIMITED
Independent Expert's Report in relation to the Proposed Farm-Out to American Energy Partners, LP

30 September 2015

BDO

Table of Contents

Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

(a) financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and

(b) arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Armour Energy Ltd ('Armour Energy') in relation to the proposed farm-out transaction with American Energy Partners ('AEP') as announced on 20 August 2015 and 11 September 2015 ('the Proposed Transaction').

Further details of the Proposed Transaction are set out in Section 3. The scope of this Report is set out in detail in Section 4. This Report provides an opinion on whether or not the Proposed Transaction is fair and reasonable to Armour Energy shareholders.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to approve or reject the Proposed Transaction is likely to be influenced by their particular circumstances, for example, their taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately $55,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the Proposed Transaction.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has not any provided services to Armour Energy in the past two years. Related entities of BDO CFQ provide services to Armour Energy as follows:

- BDO (Qld) Pty Ltd provides taxation services to Armour Energy; and
- BDO Audit Pty Ltd is the external auditor of Armour Energy.

In all cases, the services provided by BDO (Qld) Pty Ltd and BDO Audit Pty Ltd are statutory and compliance services by nature and in all cases BDO (Qld) Pty Ltd and BDO Audit Pty Ltd have been engaged as an independent and objective party.

BDO CFQ is not an associate of Armour Energy. The signatories to the Report do not hold any shares in Armour Energy and no such shares have ever been held by the signatories.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with the Institute of Chartered Accountants, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission (ASIC) also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

Contact Details

BDO Corporate Finance (QLD) Ltd

Location Address:	Postal Address:
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Glossary

Reference	Definition
$	Australian dollars
ABV	Asset-based valuation
AEP	American Energy Partners, LP
APPEA	Australian Petroleum Production and Exploration Association
Armour Energy	Armour Energy Limited
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
ATP	Authority to Prospect (in Queensland)
bcf	Billion cubic feet
BDO CFQ	BDO Corporate Finance (QLD) Ltd
BDO Persons	BDO CFQ, BDO (QLD) Pty Ltd, BDO Audit Pty Ltd or any of its partners, directors, agents or associates
Binding Proposed Farm-out, the	The revised proposed farm-out of a 75% working interest in approximately 29.3 million acres of Armour Energy's Northern Territory oil and gas assets to AEP, as per the binding agreement, announced by the Company on 11 September 2015
boe	Barrel of oil equivalent
Cash Consideration, the	The cash consideration of US$13 million paid by AEP to Armour Energy
Bonus Consideration, the	Up to US$10 million in bonus payments upon meeting certain milestones being paid to Armour Energy
CME	Capitalisation of maintainable earnings
Company, the	Armour Energy Limited
Corporations Act, the	The Corporations Act 2001
DCF	Discounted cash flow
EP	Exploration Permit (in the Northern Territory)
EP (A)	Exploration Permit (Application) (in the Northern Territory)
Equity Instruments, the	The share placement of up to 33.8 million shares and the 24 million options (over three tranches) to be issued to AEP under the terms of the Proposed Transaction and the related share subscription agreement and option deed
FIRB	Foreign Investment Review Board
Free Carry	The benefit to Armour Energy of the contribution of Phase One work program expenditure which AEP will provide that relates to Armour Energy's working interest in the NT Petroleum Assets in Phase One, being costs that Armour Energy would otherwise be required to contribute during Phase One of the work program
Free Carry Consideration, the	AEP will provide Armour Energy's share of the expenditure (i.e. 100% of the work program) during the Phase One. In other words, AEP will contribute the cash injection that would otherwise be required of Armour Energy as joint interest holder in the NT Petroleum Assets during Phase One
FSG	Financial Services Guide
FY	Financial year
JV	Joint venture
kbbl	Thousand barrels

Reference	Definition
km^2	Square kilometres
kTonne	Thousand tonnes
Lakes Oil	Lakes Oil NL
M	Million
MBV	Market-based valuation
NOM, the	The Notice of Meeting and Explanatory Memorandum which will be sent to the Armour Energy shareholders to assist them to determine whether to vote in favour of or against the Proposed Transaction
NT	Northern Territory
NT Petroleum Assets, the	The oil and gas permits and applications covering approximately 29.3 million acres held by Armour Energy in the Northern Territory, which are the subject of the Proposed Transaction
Origin	Origin Energy Limited
Phase One	The first phase of the work program proposed under the Proposed Transaction which covers a period of up to five years from the completion of the Proposed Transaction. Armour Energy's share of Phase One work program expenditure is to be free carried by AEP
Phase Two	The second phase of the work program under the Proposed Transaction that will take place after Phase One is completed. AEP and Armour Energy are expected to be responsible for funding their own share of expenditure for Phase Two, commensurate with their respective working interests at that time
PJ	Peta joules
PL	Production Licence (in Queensland)
PPL	Petroleum Pipeline Licence (in Queensland)
PRL	Petroleum Retention Licence (PRL)
Proposed Transaction, the	The proposed farm-out transaction with American Energy Partners, LP ('AEP') as announced through a Letter of Intent on 20 August 2015 and thereafter in the form of a Binding Agreement on 11 September 2015
Regulations, the	The Corporation Regulations 2001
Report, this	This independent expert's report prepared by BDO CFQ and dated 30 September 2015
RG 111	Regulatory Guide 111: Content of Expert Report, issued by ASIC
RGs	Regulatory guides published by ASIC
RISC Advisory	RISC Advisory, Petroleum Consultants engaged as the technical expert by BDO CFQ to provide a technical opinion in relation to the Roma Shelf Assets
Roma Shelf Assets, the	The oil and gas permits, plant and infrastructure assets in the Surat Basin, proposed to be acquired by Armour Energy from Origin, as per the Company's announcement on 2 September 2015
Santos	Santos Limited
SRK	SRK Australia, Petroleum Consultants engaged as the technical expert by BDO CFQ to provide a technical valuation opinion in relation the Company's Northern Territory, North Queensland and Victorian assets
SRK Report, the	The technical expert's report prepared by SRK, dated 30 September 2015 in relation to the Company's Northern Territory, Queensland and Victorian assets
tcf	trillion cubic feet
US	United States of America
US$	United States dollars
VWAP	Volume weighted average price

Reference	Definition
We, us, our	BDO Corporate Finance (QLD) Ltd
Westside	Westside Corporation Limited
Westside Bid, the	Westside's proposed acquisition of all the shares in Armour Energy for cash consideration of $0.12 per Armour Energy share

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The Shareholders
C/- The Directors
Armour Energy Limited
GPO Box 5261
BRISBANE QLD 4001

30 September 2015

Dear Shareholders,

Independent Expert's Report

1.0 Introduction

1.1 Overview

BDO Corporate Finance (QLD) Ltd ('BDO CFQ', 'we', 'us' or 'our') has been engaged to provide an independent expert's report ('this Report') to the shareholders of Armour Energy Limited ('Armour Energy' or 'the Company') in relation to the proposed farm-out transaction with American Energy Partners, LP ('AEP') as first announced on 20 August 2015 and then revised on 11 September 2015 ('the Proposed Transaction').

The Proposed Transaction, if approved, is expected to result in:

- Armour Energy receiving cash consideration of US$13 million ('the Cash Consideration') plus up to US$10 million in bonus payments upon meeting certain milestones ('the Bonus Consideration');
- AEP receiving up to a 75% working interest in approximately 29 million acres of oil and gas tenements and applications located in the Northern Territory ('the NT Petroleum Assets') currently held by Armour Energy ('the Binding Proposed Farm-out');
- AEP spending up to US$130 million in work programs over a maximum of 5 years ('Phase One');
- AEP providing for Armour Energy's share of the work program expenditure (i.e. 100% of the work program) during Phase One. In other words, AEP will contribute the cash payments that would otherwise be required of Armour Energy as joint interest holder in the NT Petroleum Assets during Phase One ('Free Carry'). Thereafter, the parties will conduct operations according to the joint operating agreement. We refer to the value of the Free Carry as 'the Free Carry Consideration' in this Report;
- AEP subscribing for approximately 33.8 million Armour Energy shares at $0.20 each (in two tranches), subject to certain conditions. The placement is to be settled 50% on approval of the Binding Proposed Farm-out by Armour Energy shareholders and 50% on closing of the Binding Proposed Farm-out;
- The Company granting three tranches of options to AEP (with exercise prices of $0.25, $0.40 and $0.50 and maturity dates of three, five and five years respectively) subject to the option deed and farm-out agreements being approved by Armour Energy shareholders; and
- Withdrawal of the proposed takeover bid from Westside Corporation Limited ('Westside') for at least 50.1% of the shares in Armour Energy for $0.12 per share ('the Westside Bid'), based on the current conditions of the Westside Bid.

In this Report, BDO CFQ has expressed an opinion as to whether or not the Proposed Transaction is 'fair and reasonable' to the Armour Energy shareholders. The farm-out agreement, joint operating agreement, share subscription agreement and option deed state that the Proposed Transaction is subject to:

- Approval by Armour Energy shareholders;
- Due diligence (to be satisfied within 120 days);
- Regulatory approvals including Foreign Investment Review Board ('FIRB') approval, approval under the Northern Territory ('NT') Petroleum Act and assignments of Native Title Agreements to AEP; and
- Shareholder approval and entry into the share subscription agreement and option deed by 31 October 2015.

A more detailed discussion of the Proposed Transaction is set out in Section 3. The scope of this Report and the basis for assessing the Proposed Transaction are set out in detail in Section 4.

We understand this Report will be provided to Armour Energy shareholders to assist them to make an informed decision on whether to vote in favour of or against the Proposed Transaction. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.

In this Report, BDO CFQ has expressed an opinion as to whether the Proposed Transaction is Fair and Reasonable to the Armour Energy shareholders.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to Armour Energy shareholders in conjunction with this Report.

This Report does not address circumstances specific to individual Armour Energy shareholders. An Armour Energy shareholder's decision to approve or reject the Proposed Transaction is likely to be influenced by their own particular circumstances including, for example, their taxation considerations and risk profile. Armour Energy shareholders should obtain their own professional advice in relation to their own circumstances.

All dollar ('$') references in this Report are in Australian dollars unless otherwise stated.

2.0 Summary of Opinion

This section is a summary of our opinion only and cannot substitute for a complete reading of this Report.

2.1 Fairness of the Proposed Transaction

In accordance with Regulatory Guide 111: *Content of Expert's Reports* ('RG 111'), a transaction is considered fair if the value of the consideration offered is equal to or greater than the value of the securities subject of the transaction.

Table 2.1 below summarises our assessment of the fairness of the Proposed Transaction. A more detailed assessment of the fairness of the Proposed Transaction is set out in Section 8 of this Report.

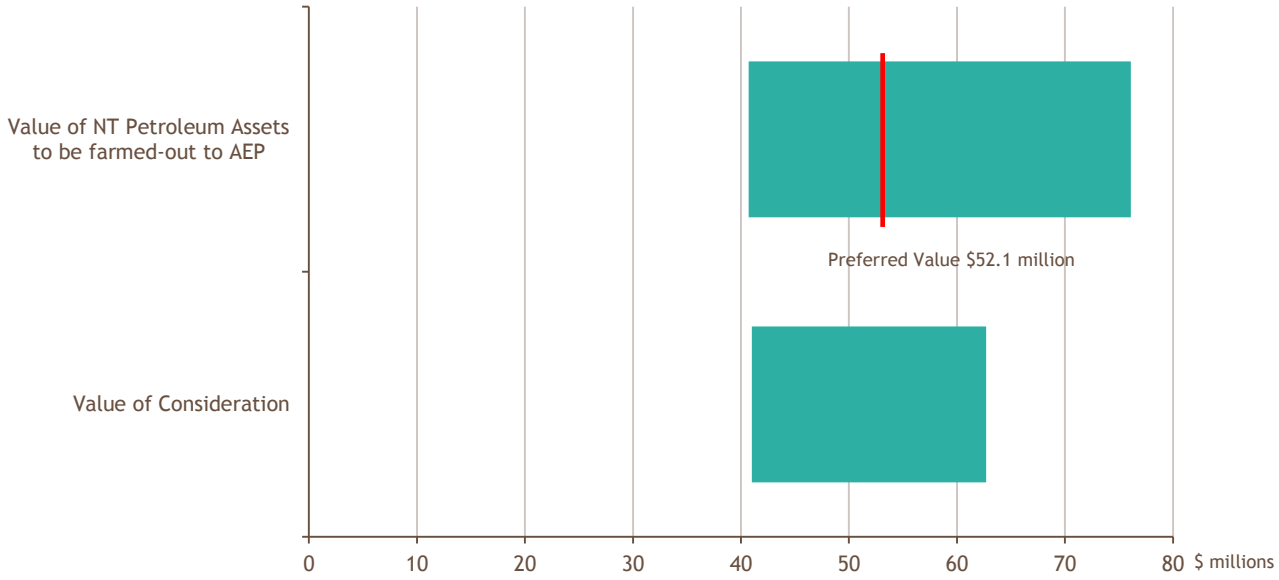
Table 2.1: Fairness of the Proposed Transaction

	Reference	Low ($m)	Preferred ($m)	High ($m)
Value of the NT Petroleum Assets to be farmed-out to AEP	Section 6	40.7	52.1	76.1
Value of the Consideration	Section 7	41.0	n/a	62.7

Source: BDO CFQ analysis

Figure 2.1 below summarises our assessment of the fairness of the Proposed Transaction, setting out a graphical comparison of our valuation of the NT Petroleum Assets to be farmed-out to AEP and the value of Consideration received.

Figure 2.1: Assessment of the Fairness of the Proposed Transaction



Source: BDO CFQ analysis

Having regard to the information set out in Table 2.1 above, it is our view that:

- The value of the consideration offered materially overlaps with the value of the NT Petroleum Assets to be farmed-out to AEP; and
- The preferred value of the NT Petroleum Assets to be farmed-out to AEP falls well within the range of the value of the consideration.

After considering the information summarised above and set out in detail in the balance of this Report, it is our view that the Proposed Transaction is Fair to the Armour Energy shareholders as at the date of this Report.

2.2 Reasonableness of the Proposed Transaction

Table 2.2 below summarises the advantages to Armour Energy shareholders of approving the Proposed Transaction. A more detailed assessment of the reasonableness of the Proposed Transaction is set out in Section 9 of this Report.

Table 2.2: Advantages and Disadvantages of the Proposed Transaction

Advantage	Disadvantage
The Proposed Transaction is Fair	Potential withdrawal of Westside Bid
The Proposed Transaction will enable a material work program to be undertaken in the next five years after completion	The Proposed Transaction is conditional
Shareholders continue to have exposure to the NT Petroleum Assets	Value of the Free Carry Consideration is uncertain
The Cash Consideration will assist to fund other operations, corporate costs and the outstanding loan facility with DGR Global	Armour Energy will not be the operator and AEP's interest is not adjusted until 31 December 2020
AEP's working interest is adjusted if the work program is not complete	The NT Petroleum Assets are subject to a joint operating agreement
Operatorship reverts to Armour Energy if AEP's working interest is adjusted below 50.1%	
AEP assistance with debt funding for Armour of up to $US 130 million for the second phase of the planned work program ('Phase Two')	

Source: BDO CFQ analysis

After considering the advantages and disadvantages of the Proposed Transaction summarised above and set out in more detail in Section 9 of this Report, it is our view that the Proposed Transaction is Reasonable to the Armour Energy shareholders as at the date of this Report.

2.3 Expert's Opinion on the Proposed Transaction

In our opinion, in the absence of any other information, the Proposed Transaction is Fair and Reasonable to the Armour Energy shareholders as at the date of this Report.

Notwithstanding our view on the Proposed Transaction, we note there is a competing takeover offer and we recommend Armour Energy shareholders consider each offer and have regard to the information set out in the balance of this Report including the other considerations set out in Section 2.4 below.

2.4 Other Considerations for Armour Energy Shareholders

The other considerations for Armour Energy shareholders include the following:

- Westside have announced they will withdrawal their takeover offer if the Proposed Transaction is approved. The Westside offer represents a cash offer for the shares in the Company;
- The Company may or may not receive any other offer to acquire all the shares in the Company in the foreseeable future;
- If the Proposed Transaction is approved, the Armour Energy shareholders will continue to participate in the risks and opportunities of an investment in Armour Energy Energy's NT Petroleum Assets and Armour Energy shares; and

- The Free Carry Consideration will be received over time and its value may vary materially depending on the level of spend on the work program.

Under the Proposed Transaction the Armour Energy shareholders will continue to participate in the risks and opportunities in Armour Energy shares, whereas under the Westside Bid, the Armour Energy shareholders would receive cash consideration. As a result these two competing offers represent distinctly different risk and return profiles for Armour Energy shareholders.

Before forming a view on whether to approve or reject the Proposed Transaction, we strongly recommend that Armour Energy shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided to them, including this Report, the Westside Bidder's Statement and associated Target's Statement; and
- Consider their risk appetite and specific circumstances.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the information presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

3.0 The Proposed Transaction

This section sets out an overview of the Proposed Transaction and is structured as follows:

- Section 3.1 provides a brief background and summary of the Proposed Transaction; and
- Section 3.2 summarises a brief background of AEP.

This section is a summary only and should not be treated as a complete description of the Proposed Transaction. Armour Energy shareholders should refer to Company's Australian Securities Exchange ('ASX') announcements and other information provided by the Company to the shareholders, including the Notice of Meeting and Explanatory Memorandum (the 'NOM'), for detailed and additional information relating to the Proposed Transaction.

3.1 Background and Summary of the Proposed Transaction

3.1.1 The Binding Proposed Farm-out With American Energy Partners, LP

On 20 August 2015, Armour Energy announced that it had signed a letter of intent with a subsidiary of AEP, for a potential farm-in by AEP into certain permits held by the Company in the McArthur Basin in the Northern Territory.

On 11 September 2015, Armour Energy announced that it had signed definitive binding agreements for the letter of intent with AEP (i.e. the Binding Proposed Farm-out). The agreements which comprise the Binding Proposed Farm-out include the following terms:

- Farm-in area of 29.3 million acres in Armour Energy's granted and pending tenements in the Northern Territory. Armour Energy will continue to retain 100% ownership of its tenements in north west Queensland covering 5.1 million acres;
- AEP will spend up to a maximum of US$130 million on Phase One of the Binding Proposed Farm-out over a maximum of five years for a 75% working interest;
- Armour Energy is free carried 100% for Phase One following which the parties will conduct operations covered by a joint operating agreement. Under Phase One the work program spend up to US$130 million on the areas subject to the Binding Proposed Farm-out will not require funding contributions from Armour Energy;
- Armour Energy will transfer a 75% working interest and operatorship in the subject tenements to AEP, subject to pro-rata adjustment if the program is not completed. Armour Energy will reclaim operatorship if AEP does not earn at least a 50.1% interest in the subject tenements;
- The design and implementation of the work program will be controlled by AEP with the consultation and assistance of Armour Energy;
- AEP will maintain the subject tenements in good standing;
- AEP will make a cash payment to Armour Energy of US$13 million on closing of the Binding Proposed Farm-out;
- AEP will make a bonus payment of US$3 million on the grant and transfer of a 75% interest in Exploration Permit ('EP') 177 and 178 by Armour Energy to AEP. As at the date of this Report, Armour Energy only has applications over these areas and the permits have not yet been awarded to the Company;
- AEP will make a bonus payment of US$7 million upon the earlier to occur of the grant of one million acres of production licences (i.e. the conversion of existing exploration permits to production permits) or the grant and transfer of a 75% farm-in interest in Armour Energy's remaining Northern Territory petroleum exploration applications (other than EP 177 and 178) to AEP;

- The following Armour Energy options will be granted to AEP on closing of the Binding Proposed Farm-out subject to pro-rata adjustments (in the event more or less shares are on issue in Armour Energy at closing of the Binding Proposed Farm-out relative to the date of the Binding Proposed Farm-out documentations):
  - 12 million options at an exercise price of $0.25 each expiring in three years;
  - six million options at an exercise price of $0.40 each expiring in five years; and
  - six million options at an exercise price of $0.50 each expiring in five years;
- If Armour Energy is unable to obtain financing on fair market terms and after notice from Armour Energy, AEP will use commercially reasonable efforts to arrange third party financing on the same terms and conditions as AEP's own financing or other fair market terms for Armour Energy's share of Phase Two appraisal and development spend. Details of the scale of Phase Two activities have not yet been agreed and there is no definitive agreement on the nature of the assistance that may be provided by AEP for Armour Energy to procure funding for Phase Two;
- AEP will acquire 33.8 million new Armour Energy shares through a placement at $0.20 per share for cash. The placement is to be settled 50% on approval of the Binding Proposed Farm-out by Armour Energy shareholders and 50% on closing of the Binding Proposed Farm-out; and
- AEP will nominate a director to be appointed to the board of Armour Energy upon settlement of the second tranche of the share placement.

The Binding Proposed Farm-out is subject to key conditions including:

- Regulatory approvals from FIRB and the Northern Territory Government;
- Approval by Armour Energy shareholders;
- Satisfactory due diligence (to be completed within 120 days of signing the Binding Proposed Farm-out);
- The option deed and the share placement being implemented;
- Assignment of interests in the Native Title agreements to AEP; and
- Goods and services tax registration of relevant AEP entities.

AEP can also withdraw if there is a material adverse change prior to closing that is not resolved after consultation between the parties.

Notwithstanding the above, we have not been provided with specific and definitive details relating to the way in which AEP plans to fund the Proposed Transaction. We note that AEP is an unlisted asset management company and we have not been provided with details of their financial position or any partners' financial position. It is outside of the scope of this Report to complete due diligence on the financial capacity of AEP to fund the Proposed Transaction.

We note that AEP's working interest is adjusted if the work program in Phase One is not complete. The minimum working interest AEP will obtain under the Binding Proposed Farm-in is 8.6% of the NT Petroleum Assets. That is, if AEP do not continue with the proposed arrangements post the upfront consideration, then Armour Energy will retain any cash payments and retain an interest of 91.4% in assets subject to the Binding Proposed Farm-out.

3.2 Background of AEP[1]

AEP is an asset management company located in Oklahoma in the United States of America ('USA'). It was established in 2013 by Aubrey K. McClendon to invest in unconventional oil and natural gas fields. Since 2013, AEP has arranged over $US 5 billion of debt and equity investments and grown to more than 450 employees.

Previously, Mr McClendon was co-founder, chairman and CEO of Chesapeake Energy Corporation ('Chesapeake') from 1989 until 2013. Under his leadership, Chesapeake grew from a start-up to the second largest producer of natural gas and the 11th largest oil producer in the US.

AEP develops custom-built play or strategy-specific companies, rather than combining varied assets as a single company. It does this by providing substantially all of the affiliated companies' required operational services, as well as support services.

AEP's primary institutional private equity partner to date has been the Energy and Minerals Group ('EMG'), a Houston, USA based firm with regulatory assets under management of $US 16.8 billion. Additional equity capital has been provided by First Reserve Corporation, a private equity firm based in Connecticut, USA focused on energy investments since 1978.

AEP's 'platform companies' have been initially capitalised with a combined $US 2.6 billion of common equity from EMG, First Reserve, AEP management and other investors together with $US 2.8 billion of debt. AEP has also established several independent companies and is the manager of two public, non-traded partnerships which seek to raise an additional $US 2 billion in equity from non-institutional investors.

[1] Information in this section of this Report is sourced from the AEP website http://www.americanenergypartners.com and the EMG website http://www.emgtx.com/about.html and from Armour Energy management

4.0 Scope of Report and Methodology for Assessment

4.1 Scope of Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act 2001 ('the Corporations Act'), the Corporation Regulations 2001 ('the Regulations'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and the listing requirements of the stock exchanges on which a company is listed. A summary of the relevant requirements is set out as follows:

- Section 4.2 summarises the requirements of the Corporations Act and the Regulations;
- Section 4.3 summarises the requirements of the ASX listing rules; and
- Section 4.4 summarises the requirements of the RGs.

The sole purpose of this Report is to express BDO CFQ's opinion on whether the Proposed Transaction is fair and reasonable to Armour Energy shareholders. This Report cannot be used by any other person for any other reason or for any other purpose. We understand that a copy of this Report will accompany the NOM to be sent to Armour Energy shareholders by the Company.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of individual Armour Energy shareholders. Before deciding whether to vote in favour of or against the Proposed Transaction, individual Armour Energy shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs, including their own taxation consequences. Armour Energy shareholders should read in full the NOM and any other information provided by the Company.

Whether to approve or reject the Proposed Transaction is a matter for individual Armour Energy shareholders based on their expectations as to value and future market conditions and their own particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Armour Energy shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

4.2 Requirements of the Corporations Act and the Regulations

There is no requirement under the Corporations Act for Armour Energy to engage an independent expert in relation to the Proposed Transaction. Notwithstanding the above, Armour Energy has engaged BDO CFQ to prepare this Report for provision to Armour Energy shareholders to provide additional information to the shareholders.

4.3 Requirements of the ASX Listing Rules

This Report has not been prepared for the purpose of complying with the listing rules of the ASX or any other stock exchange.

4.4 Methodology for Assessment

We have had regard to the views expressed by ASIC in RG 111 for our assessment of the Proposed Transaction. RG 111 provides guidance in relation to the matters an independent expert should consider to assist security holders to make informed decisions about transactions.

To meet the ASIC requirements, we are of the view that an expert should seek to determine whether the Proposed Transaction is 'fair' and 'reasonable' and should complete the steps set out below.

4.4.1 Step 1 - Assessment of Fairness

As there is no specific requirement for our report under any act or regulation, we have had regard to the assessment methodology for related party transactions outlined in RG 111. RG 111.57 states that a transaction is fair if the value of the financial benefit to be provided by the company is equal to or less than the value of the consideration being provided to the company. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

Having regard to the above, in our view, to assess whether the Proposed Transaction is 'fair' it is appropriate to:

(a) Determine the value of the NT Petroleum Assets immediately prior to the Proposed Transaction and which may be acquired by AEP (i.e. the 75% interest); and

(b) Compare the value determined in (a) above with the value of the consideration to be received by Armour Energy shareholders for the interest provided to AEP in the NT Petroleum Assets under the Proposed Transaction.

Under RG 111, the Proposed Transaction will be considered 'fair' to Armour Energy shareholders if the value of the consideration to be received by Armour Energy shareholders is equal to or greater than the interest provided to AEP in the NT Petroleum Assets under the Proposed Transaction.

The valuation work set out in this Report has been completed using publicly available information, our own analysis and information provided by the Armour Energy Directors and management. We have also engaged SRK Australia ('SRK') to provide independent technical advice in relation to the value of the oil, gas and mineral assets of Armour Energy.

Our assessment of the fairness of the Proposed Transaction is set out in Section 8.

4.2.2 Step 2 - Assessment of Reasonableness

To assess whether the Proposed Transaction is 'reasonable' it is appropriate to examine other significant factors to which Armour Energy shareholders may give consideration prior to forming a view on whether to vote in favour of or against the Proposed Transaction. This includes comparing the likely advantages and disadvantages of approving the Proposed Transaction with the position of Armour Energy shareholders if they do not approve the Proposed Transaction, as well as a consideration of other significant factors.

Our assessment of the reasonableness of the Proposed Transaction is set out in Section 9 of this Report.

4.2.3 Step 3 - Expert's Opinion

RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to approve a transaction.

This Report will conclude by providing our opinion as to whether or not the Proposed Transaction is 'fair and reasonable'. While all relevant issues need to be considered before drawing an overall conclusion, we will assess the fairness and reasonableness issues separately for clarity.

In this Report we have not provided any taxation, legal or commercial advice in relation to the Proposed Transaction.

In the process of assessing the Proposed Transaction, we have relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

This Report has been prepared in accordance with professional standard APES 225: Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited. This assignment is a Valuation Engagement as defined by APES 225. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider to be appropriate in the circumstances.

5.0 Background of Armour Energy[2]

This section is set out as follows:

- Section 5.1 sets out an overview of Armour Energy;
- Section 5.2 provides a summary of the oil and gas permits, plant and infrastructure assets in the Surat Basin, proposed to be acquired by Armour Energy from Origin Energy Limited ('Origin'), as per the Company's announcement on 2 September 2015 ('the Roma Shelf Assets');
- Section 5.3 sets out an overview of the equity structure of Armour Energy;
- Section 5.4 provides an overview of the recent performance of Armour Energy's shares; and
- Section 5.5 sets out a summary of the historical financial information of Armour Energy.

5.1 Overview

5.1.1 Operations Summary

Armour Energy is an ASX-listed (ticker: AJQ) oil and gas and minerals exploration company with a market capitalisation of $37 million.3 Armour Energy's oil and gas tenure covers approximately 34 million acres in the Northern Territory and North-west Queensland. To complement Armour Energy's prospective areas in Northern Australia, the Company has an investment in ASX-listed Lakes Oil NL ('Lakes Oil'), an oil and gas explorer focused on the Otway and Gippsland Basins in Victoria. The company also has interests in relation to some of the tenures held by Lakes Oil in Victoria either by way of direct interests or farm in rights.

A summary of Armour Energy's projects in the Northern Territory, Queensland and Victoria is set out further below.

Northern Territory

Armour Energy has been granted exploration permits ('EP') 171, 174, 176, 190, 191 and 192 and has 9 additional permits pending grant in the Northern Territory. These permits and applications cover approximately 29.3 million acres in the McArthur, South Nicholson and Georgina Basins.

The Company's most recent Resources upgrade announcement on 21 September 2015 included the following statements.

Conventional Oil and Gas

Delineated 193 conventional leads and prospects in the Northern Territory that can target 4.9 tcf of best estimate prospective recoverable gas resources including:

- 97 combined closures with potential conventional reservoirs in the Wollogorang and McDermott with a best estimate prospective gas resource of 2.2 tcf. A host of conventional reservoirs are likely to occur in Tawallah Group and additional hydrocarbon charge could be possible into the overlaying McArthur Group;
- 96 combined Coxco Dolomite leads and prospects with a best estimate prospective resource of 2.65 tcf;
- In 2012, the Glyde 1 discovery well in EP 171 flowed 3.3 mmscfd from the Coxco Hydrothermal Dolomite of the McArthur Group. The well enabled booking of 10.1 bcf of Contingent Resources in an estimated 5.9 square kilometre ('km^2') closure; and

[2] Information in this section of this Report is sourced from the Armour Energy website (www.armourenergy.com.au), from ASX announcements and from Armour Energy management
[3] As at 24 September 2015

- Armour Energy notes that it has reported both oil and gas discoveries to the NT Department of Mines and Energy in 4 of 6 conventional wells in its granted permits since its initial public offering in 2012, which represents a wildcat exploration success rate of 66%.

Unconventional Oil and Gas

Armour Energy has a best estimate prospective recoverable resource of 6.9 tcf in the Wollogorang Shale and 10.1 tcf in the McDermott Shale of the Tawallah Group. Source rock sample tests by CSIRO results have demonstrated the McDermott Formation shale core samples are currently within the gas-plus-condensate and/or gas-plus-oil windows and the Wollogorang Formation shale core samples are currently within the gas-window.

The Wollogorang and McDermott Shales underlie the Barney Creek Shale prospective fairway in the Batten Trough (EP 171 and 176) which extends east to the Queensland border (EP 174 and 190) and south into the Barkley Tablelands (EP 191 and 192). The overlying Barney Creek Formation Shale currently has a best estimate prospective recoverable resource of 13 tcf in an estimated area of 11,504 km^2 in only granted EP 171 and 176. The Company is of the view that together, the shales offer a development opportunity for stacked resource plays combined with conventional targets.

Queensland

This section provides a summary of Armour Energy's permits in northwest Queensland permits. A summary of Armour Energy's recent acquisition (subject to regulatory and government approvals and pre-emption rights) of the Roma Shelf Assets is set out in Section 5.2 below.

The Company's most recent Resources upgrade announcement on 21 September 2015 included the following statements:

Egilabria-2 and Egilabria-4 wells were drilled in Authority to Prospect ('ATP') 1087 during 2013. After extracting gas to surface from a multi-stage hydraulic stimulation at the Egilabria 2 DW1, 365 bcf of contingent resource were booked in the Lawn Hill Shale fairway. A reassessment of the gas resource in ATP 1087 has determined a combined best estimate prospective recoverable resource of 22.1 tcf from:

- an initial best estimate prospective recoverable resource from the Riversleigh Shale of 14 tcf; and
- a revised prospective recoverable resources in the Lawn Hill Shale of 8.1 tcf following a deeper subsurface depth cut off.

The Company notes that the Riversleigh Shale is approximately 500 metres to 1,000 metres deeper than the overlying Lawn Hill Shale fairway and offers the opportunity for stacked resource play development across an area of 4,200 km^2 in ATP 1087. Hydrocarbon analysis of samples from the Egilabria-2 and Egilabria-4 predominantly show a dry gas window with very low carbon dioxide and nitrogen. In addition, the Company notes that up to 6% helium were reported while drilling and subsequent post-hydraulic stimulation gas analysis showed a consistent 1% of associated helium from analysed separator gas. The Company stated that source rock laboratory studies of recovered shale cuttings and sidewall core demonstrate Total-Organic-Carbon values up to 11% in the Riversleigh Shale. The Company notes that subsurface studies suggest that the Riversleigh Shale in ATP 1087 are directly correlated to the Barney Creek Shale in their NT permits.

Victoria

In 2013, the Company made an investment in Lakes Oil, an ASX-listed oil and gas explorer focused on the Otway and Gippsland Basins, Victoria. The Company also entered into agreements on three projects:

- PEP 169 (targeting gas from Waarre Sandstone and Eumeralla Formation) in the Otway Basin where Armour Energy holds a direct 51% interest. PEP 169 hosts the 2012 Moreys 1 gas and condensate discovery and the Otway 1 target;

- Petroleum Exploration Permit ('PEP') 166 (targeting the Baragwanath Anticline structure) in the onshore Gippsland Basin where, in addition to its stake in Lakes Oil, Armour Energy holds a 25% direct interest and a right to earn up to 51% by drilling an additional well or, alternatively, expending $4.75 million on exploration. The main target within PEP 166 is the gas resources in the Strzelecki Group and oil in the Rintoul Creek Sandstone; and

- Petroleum Retention Licence ('PRL') 2 in the onshore Gippsland Basin where, over the next two years (or longer depending on regulatory outcomes), Armour Energy, has options to acquire in its own right, half of Lakes Oil's project interest in the Trifon and Gangell blocks within PRL 2 and a 25% direct interest in the balance of PRL 2. Alternatively, Armour Energy may match Beach Energy Limited's farm-in agreement on PRL 2 under certain conditions.

The Victorian Government currently has a moratorium in place on all onshore gas exploration and drilling activities, with a primary focus on fracture stimulation.

Gas resources of Armour Energy's Victorian permits are in the proximity of existing gas pipelines, gas-fired power generation plants and heavy industry.

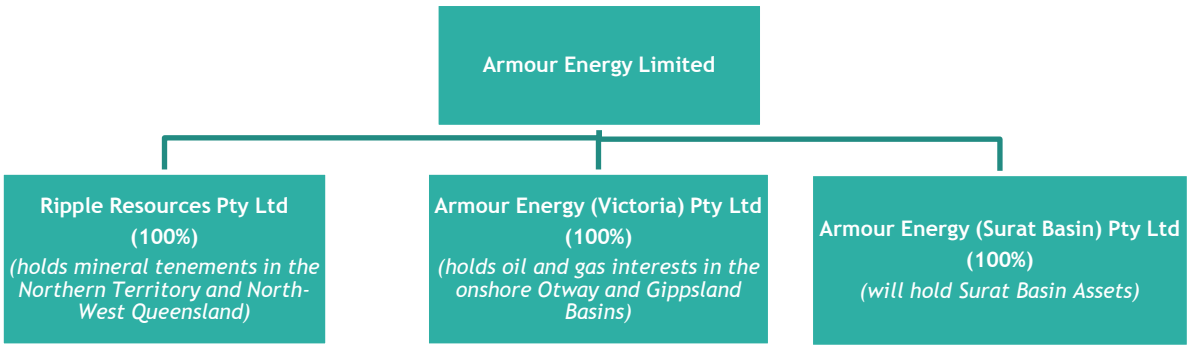
5.1.2 Tenements Summary

A listing of Armour Energy's tenements, applications, and also the relevant dates and terms applicable to those permits and applications is set out in the report prepared by SRK dated 30 September 2015 ('the SRK Report') which is set out in Appendix D of this Report. The Roma Shelf Assets are summarised separately in Section 5.2 of this Report.

5.1.3 Corporate Structure

The corporate structure of Armour Energy is set out in Figure 5.1 below.

Figure 5.1: Corporate Structure



Source: Armour Energy Annual Report 2015 and Armour Energy management

5.2 The Roma Shelf Assets

On 2 September 2015, the Company announced the execution of sale and purchase agreements to acquire certain oil and gas interests from Origin located in the Surat Basin near Roma Queensland (i.e. the Roma Shelf Assets) for cash consideration of $10 million upfront and $3 million in deferred payments (to be paid in annual tranches of $1 million from the first anniversary of first gas sales following the acquisition by Armour Energy).

The Company announced on 11 September 2015 that it has an indicative debt funding proposal capable of acceptance in hand to assist with the funding requirements of the Company's acquisition of the Roma Shelf Assets. The Company announced that the debt funding proposal is from its largest shareholder, DGR Global Limited, for $15 million on commercial terms. The Company noted that it has not signed a term sheet for the funding proposal and is in discussions with other financiers in relation to potential funding alternatives.

The acquisition is conditional on a number of matters including regulatory compliance, approval requirements and pre-emption by other joint venture ('JV') co-venturers in certain tenements either being waived or expiring.

The Roma Shelf Assets to be acquired include oil and gas production and exploration permits with estimated contingent and prospective resources, the Kincora processing plant, inter-field pipelines and a trunkline link to Wallumbilla, a gas storage facility (Newstead) and infield infrastructure. These assets are discussed further below.

5.2.1 Tenures

The tenures include 19 production leases ('PL') (7 non-operated), 4 ATPs (1 non-operated) and 4 Petroleum Pipeline Licenses ('PPL'). Table 5.1 sets out Origin's interests in the Roma Shelf Assets which have been acquired by Armour Energy. Certain JV interests being acquired are subject to pre-emptive rights. In relation to JVs with Santos Limited ('Santos'), the Company's announcement states that the pre-emptive rights have been waived. Of the remainder, Armour Energy may not be able to acquire interests in those tenements depending on whether those pre-emptive rights are exercised or waived by the JV co-venturers.

Many of the permits have additional royalty obligations on some or all of the blocks covering the permits. These royalties range from a 1.6% to 5% royalty on wellhead value and/or up to 10% of net profit interest on certain blocks. We are instructed that the Company has reached an indicative agreement to acquire the majority of the overriding royalties in relation to the JVs with Santos.

Table 5.1: Interests to be Acquired in the Roma Shelf Assets

Tenement[1,2]	Interest	Operated	Unwaived pre-emptive right
PL14	100.00%	Yes	No
PL53	100.00%	Yes	No
PL70	100.00%	Yes	No
PL511 (formerly PL174)	100.00%	Yes	No
PL227	100.00%	Yes	No
PPL 3	100.00%	Yes	No
PPL 63	100.00%	Yes	No
Newstead Gas Storage	100.00%	Yes	No
PL28	46.25%	No	No
PL 69	46.25%	No	No
PL 89	46.25%	No	No
PL 320 (formerly PL 10W)	46.25%	No	No
PL 11W	46.25%	No	No
PL 12W	46.25%	No	No
PL11 Snake Creek East Exclusion Zone	25.00%	No	No
PL 21	87.50%	Yes	No
PL 22	87.50%	Yes	No
PL 27	87.50%	Yes	No

Tenement[1,2]	Interest	Operated	Unwaived pre-emptive right
PL 71	90.00%	Yes	No
PL 264	90.00%	Yes	No
ATP 1190 (formerly ATP 471)	50.64%	Yes	Yes
PL 30	75.00%	Yes	Yes
PL 512 (formerly PL 74)	69.00%	Yes	Yes
PPL 22	69.00%	Yes	Yes
PL 71 (exploration)	72.00%	Yes	Yes
ATP 647 (Block 2656)	50.00%	Yes	Yes
ATP 754	50.00%	Yes	Yes
ATP 1190 (Bainbilla) (formally ATP 471)	24.75%	No	Yes

Source: Armour Energy ASX Announcement, 2 September 2015
1 PL = Petroleum Licence (in Queensland)
2 PPL = Petroleum Production Licence (in Queensland)

5.2.2 Resources

Table 5.2 sets out the independently estimated 2C contingent resources relating to the Roma Shelf Assets. We are informed by RISC Advisory (an independent technical expert) that these resources may selectively be converted to 2P Reserves upon commissioning of the gas processing plant and the activities approved to enable production from the wells.

Table 5.2: 2C Contingent Resources in the Roma Shelf Assets

Sales gas (PJ)[1]	LPG (kTonne)[2]	Condensate (kbbl)[3]	Oil (kbbl)
23.0	51.9	245	154

Source: Armour Energy ASX Announcement, 2 September 2015
1 PJ = petajoules
2 kTonne = thousand tonnes
3 kbbl = thousand barrels

5.2.3 Infrastructure

Key infrastructure relating to the Roma Shelf Assets includes:

- The Kincora Plant and LPG Plant and Infrastructure:
  - Gas, LPG and condensate processing and gas compression facilities at Kincora, south of Roma;
  - A number of in-field gas compression and stand-alone oil gathering/processing facilities as well as inter-field pipelines; and
  - A dedicated pipeline from the Kincora Gas Plant to Wallumbilla connecting to the Roma to Brisbane Pipeline.
- An established gas storage facility:
  - A gas storage facility with a capacity of 7.5 PJ, currently containing 2.3 PJ of sales gas.

5.3 Equity Structure

As at the date of this Report, Armour Energy had the following securities on issue:

- 304.64 million fully paid ordinary shares; and
- 20.48 million options on issue.

Table 5.3 summarises the top ten shareholders of Armour Energy as detailed in the Company's most recent annual report.

Table 5.3: Top 10 Shareholders in Armour Energy

Shareholder	Number of Shares	Percentage Holding
DGR Global Limited	75,050,000	24.6%
National Nominees Limited	28,149,985	9.2%
J P Morgan Nominees Australia Limited	14,919,747	4.9%
BT Portfolio Services Limited	11,900,000	3.9%
UBS Wealth Management Australia Nominees Pty Ltd	7,956,028	2.6%
HSBC Custody Nominees (Australia) Limited	5,442,035	1.8%
Mr Paul Cozzi	4,200,000	1.4%
Lujeta Pty Ltd	4,050,000	1.3%
Capita Trustees Limited	4,000,000	1.3%
Citicorp Nominees Pty Limited	3,527,368	1.2%
All Others	145,440,603	47.7%
Total	**304,635,766**	**100.0%**

Source: Armour Energy Annual Report 2015

Table 5.4 summarises Armour Energy's options on issue as at the date of this Report.

Table 5.4: Options on Issue

Grant Date	Date of Expiry	Exercise Price	Number under Option
24 July 2013	24 July 2018	0.50	2,500,000
24 July 2013	24 July 2018	0.75	2,500,000
24 July 2013	24 July 2018	1.00	2,500,000
25 July 2013	2 September 2016	0.50	100,000
25 July 2013	26 August 2018	0.50	1,250,000
25 July 2013	26 August 2018	0.75	1,250,000
25 July 2013	26 August 2018	1.00	1,250,000
26 February 2015	25 February 2017	0.26	3,130,000
6 February 2015	6 February 2016	0.10	2,400,000
6 February 2015	6 February 2017	0.20	2,400,000

Grant Date	Date of Expiry	Exercise Price	Number under Option
6 February 2015	6 February 2018	0.30	1,200,000
Total			**20,480,000**

Source: Armour Energy Annual Report 2015

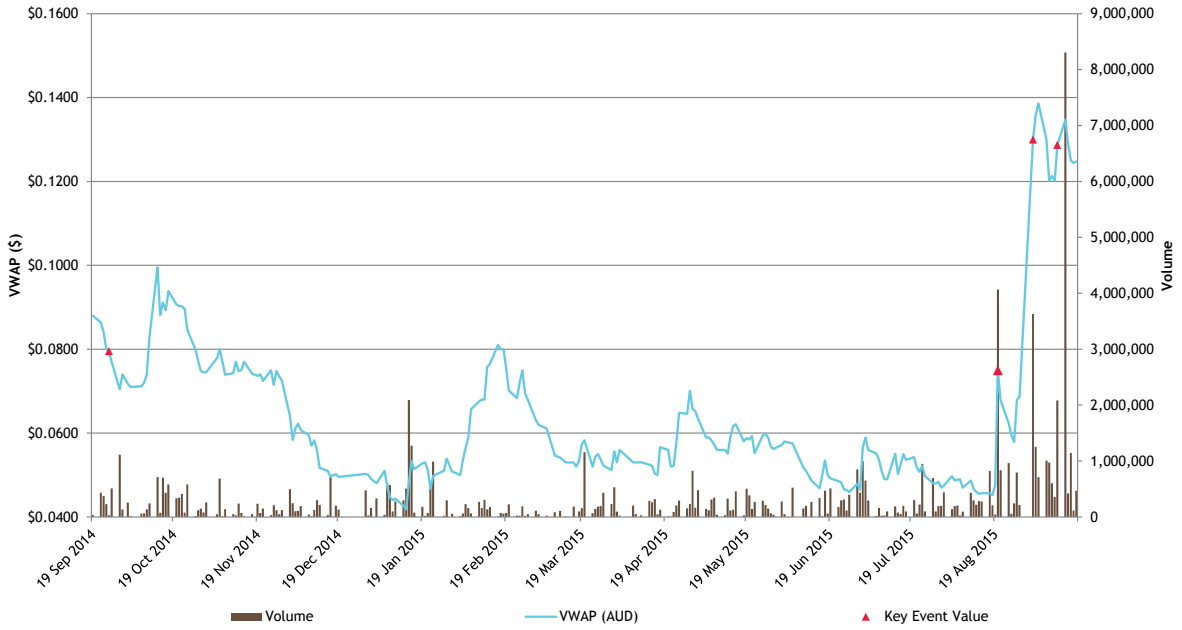
Based on the share price of $0.12 as at 24 September 2015, approximately 88% of the above options are estimated to be 'out-of-the-money'.

5.4 Share Performance

5.4.1 Share Price Performance

Figure 5.2 shows the daily volume weighted average price ('VWAP') and daily volume of Armour Energy shares traded on the ASX over the period from 19 September 2014 to 18 September 2015 inclusive.

Figure 5.2: Daily VWAP and Volume of Armour Energy Shares Traded from 19 September 2014 to 18 September 2015



***Source:** Capital IQ*

Over the period graphed in Figure 5.2 above, Armour Energy's daily VWAP shows a period low of $0.0418 on 13 January 2015 and a period high of $0.1386 on 4 September 2015.

In addition to the share price and volume data of Armour Energy shown above, we have also provided additional information in Table 5.5 below to assist readers to understand the possible reasons for movements in Armour Energy's share price over the period analysed. The selected ASX announcement references in Table 5.5 below correspond to those displayed in Figure 5.2 above.

Table 5.5: Selected Armour Energy ASX Announcements from 19 September 2014 to 18 September 2015

Date	Announcement
25/09/14	Armour Energy's auditor raises 'going concern' doubt
20/08/2015	The Company announced that it had signed a Letter of Intent with AEP for a farm-in to its Northern Territory acreage for cash of US$10 million and carry consideration of US$100 million for a 75% working interest
31/08/2015	Westside makes a takeover bid for $0.12 per Armour Energy share
02/09/2015	Armour Energy executed sale and purchase agreements to acquire oil and gas interests (the Roma Shelf Assets) in the Surat Basin, Queensland from Origin for $13 million
11/09/2015	Armour Energy announced it had an indicative debt proposal (which is capable of execution) from DGR Global for $15 million on commercial terms to fund the purchase of the Roma Shelf Assets. The Company stated that it is continuing advanced discussions with other financiers for funding alternatives
11/09/2015	The Company announced it had signed a binding US$130 million farm-out agreement for AEP to acquire a 75% interest in certain Northern Territory permits of the Company. The agreement includes a cash payment of US$13 million upon closing and potential bonus payments upon reaching certain milestones

Source: Armour Energy ASX Announcements

We also note that Armour Energy announced an upgrade of prospective resources on 21 September 2015 and a $15 million funding facility provided by DGR Global on 30 September 2015.

In Table 5.6, we have set out the VWAP of Armour Energy shares traded on the ASX for specified periods prior to 18 September 2015.

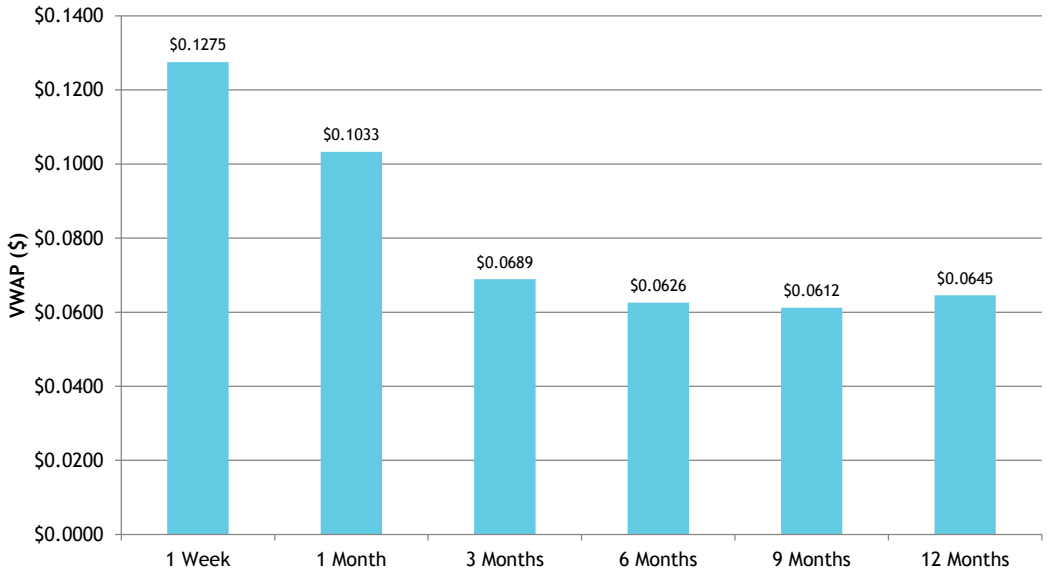
Table 5.6: Armour Energy's VWAP for Specified Periods Prior to 18 September 2015

Period Prior to 18 September 2015	VWAP
1 Week	$0.1275
1 Month	$0.1033
3 Months	$0.0689
6 Months	$0.0626
9 Months	$0.0612
12 Months	$0.0645

Source: Capital IQ

The information presented in Table 5.6 is shown graphically in Figure 5.3 below.

Figure 5.3: Armour Energy's VWAP for Specified Periods Prior to 18 September 2015



Source: Capital IQ

5.4.2 Share Liquidity

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 5.7 summarises the monthly liquidity of Armour Energy shares from 1 September 2014 to 31 August 2015. Liquidity has been summarised by considering the following:

- Volume of Armour Energy share trades per month;
- Number of trades (or turnover) in Armour Energy shares per month;
- Number of Armour Energy shares outstanding in each month;
- Volume of shares traded per month as a percentage of total shares outstanding at the end of the month; and
- VWAP per month.

Table 5.7: Liquidity of Armour Energy Shares on the ASX from 1 September 2014 to 31 August 2015

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
August 2015	10,429,700	640,930	304,635,770	3.42%	$0.0615
July 2015	6,174,240	334,330	304,295,680	2.03%	$0.0541
June 2015	5,454,020	268,780	303,828,060	1.80%	$0.0493
May 2015	4,599,010	269,450	303,828,060	1.51%	$0.0586
April 2015	3,430,540	204,330	303,789,790	1.13%	$0.0596

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
March 2015	3,782,310	210,140	303,101,080	1.25%	$0.0556
February 2015	2,330,210	160,840	303,101,080	0.77%	$0.0690
January 2015	8,400,190	403,750	302,857,060	2.77%	$0.0481
December 2014	3,595,580	193,740	302,240,220	1.19%	$0.0539
November 2014	2,325,390	174,920	302,183,950	0.77%	$0.0752
October 2014	5,663,320	484,970	302,183,950	1.87%	$0.0856
September 2014	6,269,010	535,700	301,699,100	2.08%	$0.0855
Total	**62,453,520**	**3,881,880**	**303,145,317**	**20.60%**	**$0.0622**

Source: Capital IQ

Assuming a weighted average number of 303,145,317 Armour Energy shares on issue over the period, approximately 20.6% of the total shares on issue were traded over the twelve month period to 31 August 2015. In our view, this indicates that Armour Energy shares display a relatively low level of liquidity.

5.5 Historical Financial Information

This section sets out the historical financial information of Armour Energy. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in Armour Energy's annual reports, including the full statements of comprehensive income, statements of financial position and statements of cash flows.

Armour Energy's annual reports have been audited by BDO Audit Pty Ltd. BDO CFQ has not performed any audit or review of any type on the historical financial information of Armour Energy. We make no statement as to the accuracy of the information provided. However, we have no reason to believe that any of the information provided is false or misleading.

5.5.1 Statement of Comprehensive Income

Table 5.8 summarises the consolidated statement of comprehensive income of Armour Energy for the 12 month periods ended 30 June 2013, 2014 and 2015.

Table 5.8: Summarised Armour Energy Statements of Comprehensive Income

	12 Months Ended 30 June 2013 Audited ($)	12 Months Ended 30 June 2014 Restated(a) ($)	12 Months Ended 30 June 2015 Audited ($)
Revenue	2,335,368	505,409	97,803
Other income	2,450,000	1,434,508	17,237
Revenue and other income	4,785,368	1,939,917	115,040
Administration and consulting expenses	(2,771,313)	(2,644,693)	(2,036,291)
Depreciation	(58,360)	(70,487)	(61,924)
Employee benefits expense	(1,420,508)	(2,002,172)	(1,382,532)
Exploration expenditure written off and impaired	-	-	(150,338)
Legal expenses	(573,057)	(200,398)	(86,340)
Finance costs	(1,573)	(367)	(326)
Share based payments expense	(384,027)	(1,837,800)	(616,827)

	12 Months Ended 30 June 2013 Audited ($)	12 Months Ended 30 June 2014 Restated(a) ($)	12 Months Ended 30 June 2015 Audited ($)
Profit / (loss) before income tax	**(423,470)**	**(4,816,000)**	**(4,219,538)**
Income tax benefit / (expense)	2,003,370	(1,852,943)	(2,355,536)
Profit / (loss) for the year	**1,579,900**	**(6,668,943)**	**(6,575,074)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Change in fair value of available for sale financial assets	-	(4,028,000)	(2,236,000)
Income tax on items that may be reclassified to profit or loss	-	1,208,400	670,800
Other comprehensive income, net of tax	-	(2,819,600)	(1,565,200)
Total comprehensive income for the year	**1,579,900**	**(9,488,543)**	**(8,140,274)**

Source: Armour Energy Annual Reports

The Financial Year ('FY') 2014 accounts were audited in FY2014 and restated in FY2015 as a result of the Company changing its policy in relation to refundable research and development tax incentives. The Company previously accounted for refundable research and development tax incentives as an income tax benefit. Refundable research and development tax incentives are now accounted for as government grants, impacting on:

i. Income tax benefit (expenses) in the statement of comprehensive income;

ii. A number of balance sheet accounts including exploration and evaluation assets, consumables, deferred tax assets and liabilities, and retained earnings; and

iii. Net cash flows from operating activities and net cash flows from investing activities in the statement of cash flows.

Regarding Table 5.8 above, we note the following:

- Revenue is primarily comprised of interest income, which was $2.2 million in FY2013, and over 70% of the revenue in each of FY2014 and FY2015;
- Other income primarily relates to the change in fair value of investments (other than assets available for sale), which was $2.5 million in FY2013 and $1.1 million in FY2014; and
- Armour Energy generated a profit in FY2013, and a net loss in FY2014 and FY2015. The profit in FY2013 is due to the relatively higher interest revenues received and the treatment of R&D tax incentives before the change in the Company's accounting policy.

5.5.2 Statement of Financial Position

Table 5.9 summarises Armour Energy's statement of financial position as at 30 June 2013, 30 June 2014, and 30 June 2015.

Table 5.9: Summarised Armour Energy Statements of Financial Position

	As at 30 June 2013 Audited ($)	As at 30 June 2014 Audited ($)	As at 30 June 2015 Audited ($)
Assets			
Current assets			
Cash and cash equivalents	37,053,394	6,474,941	8,533,160
Trade and other receivables	1,013,574	119,159	191,672
Other current assets	785,822	298,440	272,682
Consumables	1,395,455	-	-
Total current assets	**40,248,245**	**6,892,540**	**8,997,514**
Non-current assets			

	As at 30 June 2013 Audited ($)	As at 30 June 2014 Audited ($)	As at 30 June 2015 Audited ($)
Other financial assets	10,166,027	7,406,817	5,241,972
Property, plant and equipment	243,999	170,309	116,393
Exploration and evaluation assets	43,258,305	60,428,432	55,156,524
Deferred tax assets	-	504,785	-
Total non-current assets	**53,668,331**	**68,510,343**	**60,514,889**
Total assets	**93,916,576**	**75,402,883**	**69,512,403**
Liabilities			
Current liabilities			
Trade and other payables	8,995,294	634,241	898,025
Provision	106,380	53,828	74,379
Total current liabilities	**9,101,674**	**688,069**	**972,404**
Non-current liabilities			
Deferred tax liability	24,334	-	1,177,530
Total non-current liabilities	**24,334**	**-**	**1,177,530**
Total liabilities	**9,126,008**	**688,069**	**2,149,934**
Net assets	**84,790,568**	**74,714,814**	**67,362,469**
Equity			
Issued capital	83,362,886	83,709,877	83,880,979
Reserves	2,538,069	1,520,269	571,896
Accumulated losses	(1,110,387)	(10,515,331)	(17,090,406)
Total equity attributable to owners of Armour Energy	**84,790,568**	**74,714,814**	**67,362,469**

Source: Armour Energy Annual Reports

Regarding Table 5.9 above, we note the following:

- Cash and cash equivalents have decreased 83% as at 30 June 2014, primarily due to the absence of any significant capital raisings in 2013 to fund the continued expenditure on exploration and evaluation of Armour Energy's assets;
- Other financial assets comprise:
  - Financial assets at fair value through profit and loss (investments in convertible notes of Lakes Oil) which were converted into shares in Lakes Oil in 2015; and
  - Financial assets at fair value through other comprehensive income (investments in the ordinary issued capital of Lakes Oil and Aus Tin Mining Limited, listed on the ASX); and
- Exploration and evaluation assets increased over the period from $43.3 million as at 30 June 2013 to $55.2 million as at 30 June 2015, primarily as a result of expenditure incurred to develop Armour Energy's assets.

5.5.3 Statement of Cash Flows

Table 5.10 summarises Armour Energy's statement of cash flows for the 12 month periods ended 30 June 2013, 30 June 2014 and 30 June 2015.

Table 5.10: Summarised Armour Energy Statements of Cash Flow

	12 Months Ended 30 June 2013 Audited ($)	12 Months Ended 30 June 2014 Audited ($)	12 Months Ended 30 June 2015 Audited ($)
Cash flows from operating activities			
Payments to suppliers and employees	(4,738,260)	(5,043,710)	(3,088,582)
Interest paid	(1,573)	(367)	(326)
Interest received	2,257,470	831,692	101,461
Research and development tax refund	3,908,558	-	-
Fuel tax credits	-	322,728	3,453
Other income	-	2,791	48,211
Net cash flows from operating activities	**1,426,195**	**(3,886,866)**	**(2,935,783)**
Cash flows from investing activities			
Receipts of/ (payments for) security deposits	202,066	(157,010)	(68,935)
Investment in convertible notes	(2,450,000)	-	-
Interest received on convertible notes	122,500	133,600	-
Purchase of property, plant and equipment	(87,249)	(26,895)	(8,009)
Payments for exploration and evaluation assets	(22,245,328)	(33,809,095)	(4,315,515)
Research and development funds in relation to exploration assets	-	7,106,464	9,394,531
Net cash flows from investing activities	**(24,458,011)**	**(26,752,936)**	**5,002,072**
Cash flows from financing activities			
Proceeds from the issue of shares	-	65,000	-
Transaction costs on the issue of shares	(1,240,306)	(3,651)	(8,070)
Net cash flows from financing activities	**(1,240,306)**	**61,349**	**(8,070)**
Net increase (decrease) in cash and cash equivalents	**(24,272,121)**	**(30,578,453)**	**2,058,219**
Cash and cash equivalents at the beginning of the year	61,325,515	37,053,394	6,474,941
Cash and cash equivalents at the end of the year	**37,053,394**	**6,474,941**	**8,533,160**

Source: Armour Energy Annual Reports

Regarding Table 5.10 above, we note the following:

- Payments for exploration and evaluation assets decreased 87.2% in FY2015;
- In 2013, the Company paid for underwriting fees of $1.24 million related to its initial public offering in 2012;
- In FY2013, research and development tax refund was accounted for in net cash flows from operating activities. This was restated in FY2014 and FY2015 to be included in net cash flows from investing activities as a result of the previously mentioned accounting policy change;
- In FY2013, Armour Energy purchased $2.45 million in convertible notes of Lakes Oil; and
- On 3 May 2014, 325,000 shares were issued for cash at a price of $0.20 to raise $65,000.

6.0 Value of the NT Petroleum Assets to be farmed-out to AEP

This section sets out a valuation of the NT Petroleum Assets to be granted to AEP.

6.1 Value of the NT Petroleum Assets to be farmed-out to AEP

We have engaged the services of SRK to assist with a valuation of the NT Petroleum Assets held by Armour Energy. SRK are specialist valuers of energy and mineral assets and, in our opinion, are suitably qualified to complete a valuation of the NT Petroleum Assets.

The SRK valuation has been completed on a fair value basis, which provides the "estimate of the amount of money, or cash equivalent, which would be likely to change hands between a willing buyer and a willing seller in an arms-length transaction, wherein each party had acted knowledgeably, prudently and without compulsion" as at 30 September 2015, being the date of the SRK Report.

We are of the view that it is appropriate for us to refer to the SRK Report when determining an appropriate value for the NT Petroleum Assets. The SRK Report is attached as Appendix D of this Report. SRK has adopted a market based comparable transactions approach as their primary valuation basis for the NT Petroleum Assets. They have cross-checked their valuation using the cost approach.

Additional details relating to the valuation methodologies considered by SRK include acreage multiples achieved in comparable transactions. In relation to that methodology we note the following:

- This approach considers transaction values observed for oil and gas exploration assets considered broadly comparable to the NT Petroleum Assets on the basis of size, location and prospectivity;
- This method is suitable for very early stage exploration projects to early stage appraisal projects (or, in some cases producing assets);
- SRK has applied comparable transaction multiples on the basis of total transaction consideration to acreage acquired or farmed into ('$/acre'); and
- SRK have cross-checked their valuation using a cost approach which considers the nature of the permit (exploration, development or application) and whether or not a resource has been assigned to the permit to apply a premium to the historical costs already incurred on the permit as a measure of value.

The value of the NT Petroleum Assets calculated by SRK is within the range of $54.2 million and $101.4 million, with a preferred value of $69.4 million. The value of the 75% working interest proposed to be farmed-out to AEP in accordance with the Binding Proposed Farm-out equates to values within the range of $40.7 million and $76.1 million, with a preferred value of $52.1 million.

7.0 Value of the Consideration

In this Section we have valued the consideration received by the Armour Energy under the Proposed Transaction.

This Section is set out as follows:

- Section 7.1 describes the components of the consideration under the Proposed Transaction;
- Section 7.2 outlines the value of the Cash Consideration;
- Section 7.3 outlines the value of the Bonus Consideration;
- Section 7.4 outlines the value of the Free Carry Consideration;
- Section 7.5 calculates the value of the equity instruments to be issued to AEP as part of the Proposed Transaction ('the Equity Instruments'); and
- Section 7.6 calculates the net value of consideration to be received under the Proposed Transaction.

7.1 Components of Consideration in the Proposed Transaction

In our view, the consideration for the Proposed Transaction is comprised of:

- Cash Consideration;
- Bonus Consideration;
- Free Carry Consideration; and
- Adjustments relating to Equity Instruments to be issued to AEP.

The Proposed Transaction is conditional on shareholder approval and a number of conditions. Among other requirements, the share placement and option deed which enable AEP to acquire an interest in Armour Energy are conditional on the Binding Proposed Farm-out being approved (Tranche 1 shares) or completed (Tranche 2 shares and options). As the share and option agreements are conditional on and/or connected to the Binding Proposed Farm-out, we have considered these matters collectively when forming our view on the value implied by the Proposed Transaction.

We have discussed each of the above forms of components of consideration below.

7.2 Value of the Cash Consideration

AEP will make a cash payment to Armour Energy of US$13 million on closing of the Binding Proposed Farm-out. Adopting an exchange rate of $1 = US$0.72 as at 18 September 2015, the Cash Consideration of $US 13 million equates to approximately $18.1 million.

7.3 Value of the Bonus Consideration

The consideration includes the following bonus payments which apply upon certain applications being granted and production licences being granted as follows:

- US$3 million on the grant and transfer of a 75% interest in EP(A) 177 and EP(A) 178 by Armour Energy to AEP. As at the date of this Report, Armour Energy only has applications over these areas and the permits have not yet been awarded to the Company; and
- US$7 million upon the earlier to occur of the grant of one million acres of production licences (i.e. the conversion of existing exploration permits to production permits) or the grant and transfer of a 75% farm-in interest in Armour Energy's remaining Northern Territory applications (other than EP(A) 177, EP(A) 178 and EP(A) 194) to AEP.

In our view, the value of the Bonus Consideration is within the range of nil to $US10 million (assuming the above milestones are not achieved and both milestones are achieved respectively). Adopting an exchange rate of $1 = US$0.72 as at 18 September 2015, this equates to a range of nil to approximately $13.9 million.

7.4 Value of the Free Carry Consideration

The Company will receive the Free Carry Consideration of:

- up to 25% of US$130 million for the Phase One work program over five years post completion if both EP(A) 177 and 178 are granted;
- up to 25% of US$115 million if one of EP (A) 177 and 178 are granted; and
- if neither EP (A) 177 and 178 are granted, up to 25% of US$100 million in Phase One.

For the purposes of our analysis we have assumed the work program expenditure is between US$100 million and US$130 million.

As the work program is anticipated to be incurred over five years (indicatively phased in line with the timing outlined in the farm-out agreement), in Table 7.1 below we have considered the present value of the above spend scenarios, discounted using a discount rate of 12%. The discount rate adopted reflects our view on the risk of the farm-in payments, noting the offsetting factor of a pro-rata reduction in interest if the payments are not made.

The work program spend has been phased in line with the indicative schedule in the farm-out agreement for years one to five as follows: 10%, 10%, 23%, 23% and 34%.

In order to calculate the value of the Free Carry Consideration we have considered the following:

- The work program spend under Phase One of the Proposed Transaction;
- The timing of the work program and its present value (assuming a discount rate of 12%);
- The percentage of working interest achieved by AEP;
- The percentage of working interest retained by the Company; and
- The present value of the Free Carry Consideration received by the Company.

Our calculation of the value of the Free Carry Consideration is set out in Table 7.1 below.

Table 7.1: Valuation of the Free Carry Consideration

Component	Unit	Low	High
Work Program Phase One Spend	US$m	100.0	130.0
Present Value of Work Program Phase One Spend	US$m	75.1	97.7
Working Interest Achieved by AEP	%	75%	75%
Free Carry Received by Armour Energy	%	25%	25%
Value of the Free Carry Consideration	US$m	18.8	24.4
Value of the Free Carry Consideration[4]	**$m**	**26.1**	**33.9**

Source: The Binding Proposed Farm-out Agreement, Armour Energy announcement dated 11 September 2015 and BDO CFQ analysis

Based on the analysis in Table 7.1 we have assumed the value of Free Carry Consideration is within the range of $26.1 million and $33.9 million.

We note that under the Proposed Transaction the level of working interest achieved by AEP is adjusted on a pro-rata basis if the work program is not completed. In circumstances where AEP contributes less in terms of Free Carry Consideration, it will receive a lower interest in the NT Petroleum Assets.

7.5 Valuation of the Equity Instruments to be issued to AEP

In addition to the value calculated above, to calculate the value of consideration received by Armour Energy, in our view it is necessary to also consider the value of the shares and options (i.e. the Equity Instruments) to be issued to AEP as part of the Proposed Transaction.

7.5.1 Value of the right to subscribe to shares at 20 cents per share

We have compared the market based value of Armour Energy shares on a minority interest basis (as calculated in Appendix C) with the issue price AEP will pay to acquire shares under the terms of the Proposed Transaction. In our view, as the issue price of $0.20 is within our range of our market based valuation ('MBV') of Armour Energy shares on a minority interest basis, as set out in Appendix C, no adjustment is required for the right to subscribe to the shares at $0.20 per share.

7.5.2 Value of the options granted to AEP

A summary of the key assumptions we have adopted in valuing the options to be granted to AEP is summarised in Table 7.2.

Table 7.2: Key Assumptions Adopted in Valuing the Options to be granted to AEP

Key Driver	Value	Calculation Method
Share Price	$0.20	We have calculated the value of options granted to AEP having regard to the market based value of ordinary shares on a minority interest basis (as outlined in Appendix C as a proxy for value in this calculation). We have adopted this value for all three option tranches.
Exercise Price	Tranche 1: $0.25 Tranche 2: $0.40 Tranche 3: $0.50	The exercise price differs according to the tranche of options being valued and ranges from $0.25 to $0.50 in line with the terms of the Binding Proposed Farm-out.

[4] Using an exchange rate of $1 = US$0.72 as at 18 September 2015

Key Driver	Value	Calculation Method
Volatility	103%	We have adopted this value for volatility having regard to the historical volatility of Armour Energy's share price over the previous 3 year period. The same volatility measure has been adopted for all three option tranches. We regard the volatility as relatively high. We note that the use of a lower volatility would result in a lower calculated value for the options provided to AEP.
Risk Free Rate	Tranche 1: 2.01% Tranche 2: 2.13% Tranche 3: 2.13%	The risk free rate for the Tranche 1 options is based on an interpolation of the 3 year and 5 year Government Bond rate. The risk free rate for the Tranche 2 and 3 options is based on the 5 year Government Bond rate. The risk free rates adopted for each option tranche approximately match the time to maturity of each option tranche.
Time to Maturity	Tranche 1: 3.5 yrs Tranche 2: 5.5 yrs Tranche 3: 5.5 yrs	Represents the time to maturity for each option tranche from 18 September 2015. Regarding the expiry date of each option tranche we have assumed that: ▪ Option Tranche 1 expires on 9 March 2019[5]; ▪ Option Tranche 2 expires on 8 March 2021; and ▪ Option Tranche 3 expires on 8 March 2021.
Dividend Yield	Nil	We have assumed that Armour Energy will not pay a dividend before the expiry date.

Source: Capital IQ and BDO CFQ Analysis

In our view, the value of the options to be granted to AEP is $3.2 million.

7.6 Value of Net Consideration

The net value of the consideration received by the Company is set out in Table 7.3 below.

Table 7.3: Valuation of Net Consideration

Component	Unit	Low ($m)	High ($m)
Value of the Cash Consideration	$m	18.1	18.1
Value of the Bonus Consideration	$m	-	13.9
Value of the Free Carry Consideration	$m	26.1	33.9
Value of the Equity Instruments	$m	(3.2)	(3.2)
Total Net Consideration	**$m**	**41.0**	**62.7**

Source: BDO CFQ analysis

In our opinion, the net value of the consideration received by the Company under the terms of the Proposed Transaction is within the range of $41.0 million and $62.7 million.

[5] This assumes that the Binding Proposed Farm-out is completed on 9 March 2016, being 180 days after the date of the farm-out agreement, after the required conditions are met. The option expiry terms of 3, 5 and 5 years respectively for each of the tranches are assumed to commence from 9 March 2016. The time to maturity is calculated from 18 September 2015

8.0 Fairness of the Proposed Transaction

We have assessed the fairness of the Proposed Transaction as follows:

- Determine the value of the NT Petroleum Assets prior to the Proposed Transaction;
- Calculate the value of the interest of the NT Petroleum Assets proposed to be farmed-out to AEP in accordance with the Proposed Transaction; and
- Compare the value of the interest to be farmed-out to AEP with the value of the consideration to be received by Armour Energy.

In this Report, the Proposed Transaction will be considered 'fair' if the value of the consideration to be received is equal to or greater than the value of the NT Petroleum Assets to be farmed-out to AEP. Table 8.1 sets out our assessment of fairness of the Proposed Transaction.

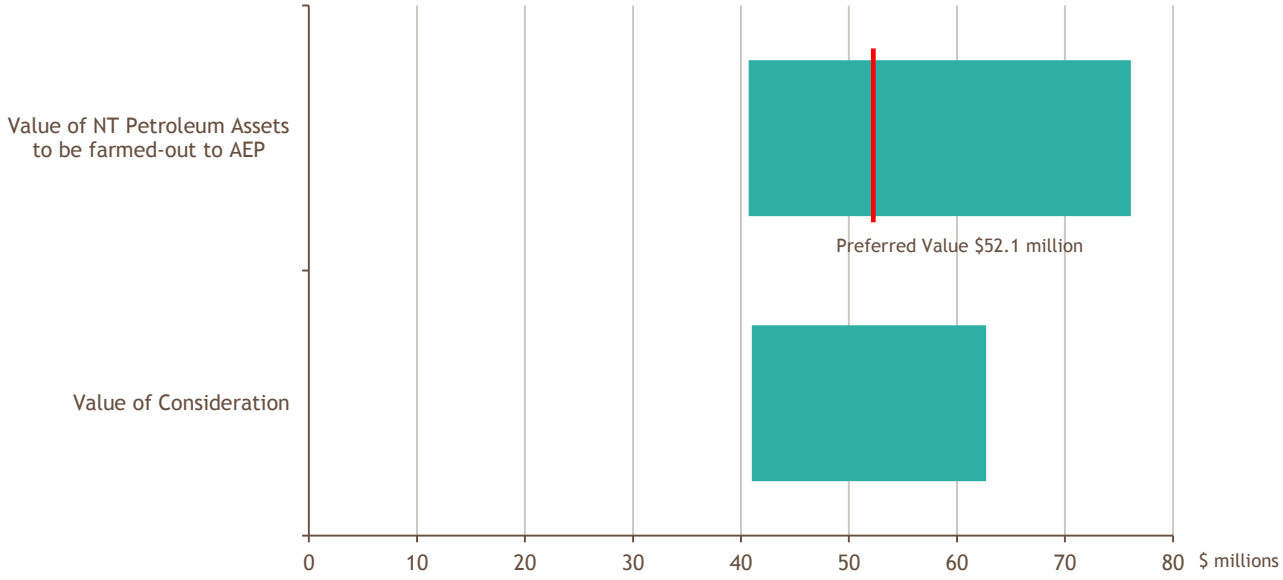
Table 8.1: Fairness of the Proposed Transaction

	Reference	Low ($m)	Preferred ($m)	High ($m)
Value of the NT Petroleum Assets to be farmed-out to AEP	Section 6.1	40.7	52.1	76.1
Value of the Consideration	Section 7.6	41.0	n/a	62.7

Source: BDO CFQ analysis

Figure 8.1 below summarises our assessment of the fairness of the Proposed Transaction, setting out a graphical comparison of the value of the NT Petroleum Assets to be farmed-out to AEP and the value of the consideration offered by AEP in exchange.

Figure 8.1: Assessment of the Fairness of the Proposed Transaction



Source: BDO CFQ analysis

Having regard to the information set out in Table 8.1 above, it is our view that:

- The value of the consideration offered materially overlaps with the value of the NT Petroleum Assets to be farmed-out to AEP; and
- The preferred value of the NT Petroleum Assets to be farmed-out to AEP falls well within the range of the value of the consideration.

After considering the information summarised above and set out in detail in the balance of this Report, it is our view that the Proposed Transaction is Fair to the Armour Energy shareholders as at the date of this Report.

9.0 Reasonableness of the Proposed Transaction

This section is set out as follows:

- Section 9.1 outlines the advantages of the Proposed Transaction to Armour Energy shareholders;
- Section 9.2 outlines the disadvantages of the Proposed Transaction to Armour Energy shareholders;
- Section 9.3 outlines the position of Armour Energy Shareholders if the Proposed Transaction does not proceed; and
- Section 9.4 provides our assessment of the reasonableness of the Proposed Transaction.

9.1 Advantages of the Proposed Transaction

Table 9.1 below outlines the potential advantages of the Proposed Transaction to Armour Energy shareholders. This section assumes that each of the conditions of the Proposed Transaction are either met or waived.

Table 9.1: Advantages of the Proposed Transaction

Advantage	Explanation
The Proposed Transaction is Fair	As set out in Section 8.0 above, the Proposed Transaction is Fair.
The Proposed Transaction will enable a material work program to be undertaken in the next five years after completion	If approved by Armour Energy shareholders, the Proposed Transaction will enable a material work program with a spend up to US$130 million to be undertaken within a defined time frame of five years of completion of the Proposed Transaction. In our view, this may enable and potentially accelerate the progressive derisking of the NT Petroleum Assets relative to a position where the Proposed Transaction is not approved (and where there are no similar or superior proposals before the Company).
Shareholders continue to have exposure to the NT Petroleum Assets	AEP propose to spend up to US$130 million over 5 years in work programs developing the NT Petroleum Assets for Phase One. The Company will participate in any increase in value of the NT Petroleum Assets as a result of this work without needing to raise additional capital as AEP will fund 100% of the work programs for Phase One.
The Cash Consideration will assist funding other operations and corporate costs	The Proposed Transaction provides the Company with Cash Consideration of approximately $18.1 million which will assist the Company to fund other operations and corporate costs. Bonus Consideration of up to $13.9 million may also be received if certain milestones are met.[6] We note that the Company has announced on the 30th of September 2015 the provision of a facility to provide funding to complete to acquisition of the Roma Shelf Assets in circumstances where other funding arrangements have not been procured. The terms of this facility are such that the extension of the facility for a period beyond 31 March 2016 would result in additional payments to DGR Global becoming due (in the form of options, royalties and conversion rights). The Cash Consideration, in the event it is received before 31 March 2016, as is currently anticipated by the Company, would assist to repay this facility and avoid the additional payments to DGR Global.
The Proposed Transaction also includes a capital raising by the way of an issue of Armour Energy shares and options to AEP	Under the terms of the Binding Proposed Farm-out, the Company will issue shares to AEP, subject to Armour Energy shareholder approval (of both the Binding Proposed Farm-out and the proposed placement) in two tranches. Tranches 1 and 2, if completed, will collectively raise $6.7 million and result in an issue of 9.99% of the total Armour Energy ordinary shares on issue at a price of $0.20 per share. Upon shareholder approval of the issue of shares to AEP and the Binding Proposed Farm-out, AEP will subscribe to a material placement in Armour Energy at $0.20 per share.
AEP's working interest is adjusted if the work program is not complete	AEP's working interest will be adjusted on a pro-rata basis if the work program is not completed by 31 December 2020.

[6] Using an exchange rate of $1 = US$0.72 as at 18 September 2015

Advantage	Explanation
Operatorship reverts to Armour Energy if AEP's working interest is below 50.1% at the end of Phase One	Operatorship reverts to the Company where AEP's working interest is adjusted below 50.1% after the Phase One work program is completed in 2020.
AEP assistance with capital raising of up to $US 130 million for Phase Two	Under the terms of the Proposed Transaction, AEP will assist the Company to source funding of up to US$130 million to fund Armour Energy's share of Phase Two appraisal and development costs.

Source: BDO CFQ analysis

9.2 Disadvantages of the Proposed Transaction

Table 9.2 below outlines the potential disadvantages of the Proposed Transaction to Armour Energy shareholders.

Table 9.2: Disadvantages of the Proposed Transaction

Disadvantage	Explanation
Potential Withdrawal of Westside Bid	Westside have announced they will withdraw their takeover offer if the Proposed Transaction is approved. At the same time, Westside has continued to reserve its position to exercise its right of withdrawal earlier based upon the entry into the Proposed Transaction. For any Armour Energy shareholders who wish to realise cash consideration for their Armour Energy shares, in the absence of another cash offer, the potential withdrawal of the Westside Bid may mean that those shareholders may or may not be able to monetise their investment in Armour Energy in the near term.
The Proposed Transaction is conditional	There is a risk that the Proposed Transaction is approved but does not complete. Under the terms of the Proposed Transaction, AEP can withdraw if there is a material adverse change prior to closing (that is not resolved after consultation between the parties) and closing is subject to due diligence and regulatory approvals.
Value of Free Carry Consideration is uncertain	The value of the Free Carry Consideration to be received by Armour Energy may be impacted by the following: - The Free Carry Consideration is received over time and its value will be subject to the level of spend undertaken by AEP; - While the required levels of spend per year (for years one to five of Phase One of the work program) are specified in the farm-out agreement, the level of spend will be determined by a range of factors, some of which are outside of the control of both Armour Energy and AEP; - The final work program spend is not determinable until December 2020 (at the latest); and - Upon approval of the Proposed Transaction, the Company will be subject to the terms of the joint operating agreement for both Phase One and Phase Two of the work programs. The resulting impact of participating in the joint operating agreement across both phases is not determinable as the activities for both phases have not been fully identified at this point in time. Notwithstanding this, if the Proposed Transaction proceeds, there is a material upfront Cash Consideration payable and AEP will also subscribe for a material placement in Armour Energy at $0.20 per share. If the maximum spend is not achieved by AEP within the requisite timeframes, Armour Energy will ultimately retain a greater interest in the NT Petroleum Assets.

Disadvantage	Explanation
Armour Energy will not be the operator and AEP's working interest is not adjusted until 31 December 2020	Under the Binding Proposed Farm-out agreement, there is no progressive adjustment for the work program spend achieved and the resulting working interests on an annual basis. The working interests are adjusted on a pro-rata basis if the work program is not complete by 31 December 2020. As this adjustment does not occur until 31 December 2020, the ability of Armour Energy to take operatorship and/or enter into alternative farm-in agreements with other parties, should AEP not complete the work program, will be restricted until this time. Armour Energy will not be the operator of the tenements and will not have control over the design and implementation of the Phase One work program. Armour Energy will act in an advisory capacity in relation to the Phase One work program and the Company's employees will be seconded to AEP to assist in the execution of the work program. Operatorship reverts to the Company where AEP's working interest is adjusted below 50.1%. The working interest adjustment occurs after Phase One is completed or by 31 December 2020 whichever is the earlier.
NT Petroleum Assets subject to joint operating agreement	Under the Proposed Transaction the NT Petroleum Assets will become subject to the joint operating agreement. We understand that this agreement has been drafted in a manner consistent with industry practice. The relationship between AEP and Armour Energy as interest holders in the NT Petroleum Assets will be governed by the joint venture agreement and there are risks that the terms of the agreement may result in unfavourable outcomes to Armour Energy, particularly in extreme or unforeseen circumstances not considered at the time the agreement was drafted.

Source: BDO CFQ analysis

9.3 Position of Armour Energy Shareholders if the Proposed Transaction does not Proceed

Table 9.3 below outlines the possible position of Armour Energy shareholders in the event that the Proposed Transaction does not proceed. We note that the Proposed Transaction may not proceed for a number of reasons including, but not limited to, the conditions precedent to the Proposed Transaction not being satisfied (refer to Section 3.2 of this Report).

Table 9.3: Position of Armour Energy Shareholders if the Proposed Transaction does not Proceed

Position of Shareholders	Explanation
Shareholders may be able to approve the Westside Bid	If the Westside Bid is not withdrawn, Armour Energy shareholders may be able to approve the Westside Bid and receive cash consideration of $0.12 for each share which they own in Armour Energy. In this scenario, Armour Energy shareholders will no longer be exposed to the risks and benefits of ownership in Armour Energy.
The Company may not be able to undertake a similar work program and de-risk the NT Petroleum Assets in the foreseeable future	If the Proposed Transaction is not approved, and if there are no other similar or superior proposals, Armour Energy may not have the funding or operating capacity to undertake activities in the NT Petroleum Assets which would provide it with a 25% working interest in a similar work program. The NT Petroleum Assets may not be able to be progressively de-risked over a similar timeframe as may be possible under the Proposed Transaction.

Position of Shareholders	Explanation
Armour Energy requires funding	Armour Energy requires funding to complete the acquisition of the Roma Shelf Assets and pay the security deposit associated with these assets, as required by regulation. Notwithstanding that the security deposit is refundable upon relinquishment of the relevant permits, the Company has a near-term funding requirement in excess of available cash resources. The Company also requires ongoing funding to meet its permit obligations and its working capital needs of approximately $0.4 million per month. We note that the Company has identified and could potentially employ the following funding sources to meet its near term funding requirements: ▪ Cash and cash equivalents of $7.0 million; ▪ A proposed loan on being considered from DGR Global of $15.0 million. The Company has announced that it is also pursuing other financing options. While Armour Energy has identified a number of existing and potential funding sources to meet its near-term and ongoing funding requirements, in circumstances where Armour Energy is unable to secure the required funding on reasonable terms, this would be likely to have significant adverse consequences for Armour Energy and its shareholders. We note that there are terms associated with the loan from DGR Global which will result in further payments being required (in the form of options, royalties and conversion rights) if the loan is not repaid before 31 March 2016.
Prospect of a superior offer or alternative transaction	We understand that while other offers to farm-in to the NT Petroleum Assets have been received previously, none remain available as at the date of this Report.

Source: BDO CFQ analysis

9.4 Assessment of the Reasonableness of the Proposed Transaction

In our opinion, after considering all of the issues set out in this Report, in the absence of any other information, the Proposed Transaction is Reasonable to Armour Energy shareholders as at the date of this Report.

10.0 Sources of Information

This Report has been prepared using information obtained from the following sources:

- Armour Energy ASX announcements;
- Armour Energy Annual Report for the years ended 30 June 2013, 2014 and 2015;
- Armour Energy company website (www.armourenergy.com.au);
- The farm-out agreement and related share subscription agreement, option deed and proposed joint operating agreement in relation to the Binding Proposed Farm-out;
- Capital IQ;
- Various other research publications and publicly available data as sourced throughout this Report; and
- Various discussions and other correspondence with Armour Energy management, their advisers and with technical experts SRK Australia.

11.0 Indemnities, Representations and Warranties

Armour Energy has agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

11.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, Armour Energy agrees to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. Armour Energy will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

Armour Energy agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by Armour Energy (including but not limited to the directors and advisers of Armour Energy) as part of this engagement.

Armour Energy has acknowledged that the engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

11.2 Representations & Warranties

Armour Energy recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by Armour Energy, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

12.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds a Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Steven Sorbello and Scott Birkett have prepared this Report with the assistance of staff members. Mr Sorbello and Mr Birkett are directors of BDO CFQ and have extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Armour Energy Limited. This Report has been prepared to provide information to Armour Energy shareholders prior to approving or rejecting the Proposed Transaction. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to any taxation implications of the Proposed Transaction, it is strongly recommended that Armour Energy shareholders obtain their own taxation advice, tailored to their own particular circumstances.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 30 September 2015.

BDO Corporate Finance (QLD) Ltd

Steven Sorbello
Director

Scott Birkett
Director

Appendix A Industry Information

This appendix sets out an overview of the below industries that are relevant to Armour Energy's operations on a global and national level. These include the:

- Global oil and gas industry; and
- Oil and gas industry in Australia.

The information presented in this section has been compiled from a range of publicly available sources and is not intended to be a comprehensive analysis. We recommend that Armour Energy's shareholders refer to the original source of the information referred to in this section, and any other information they believe appropriate, for a more comprehensive analysis. This section should be referred to as a broad guide only.

A.1 Global Oil and Gas Industry

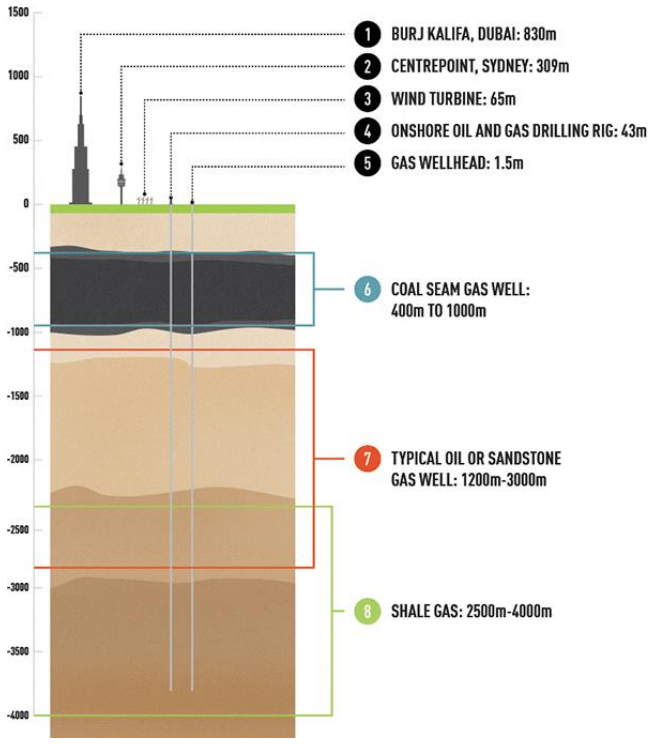
A.1.1 Oil and Gas Properties and Uses

Oil and gas are important fossil fuels formed from the decomposition and pressurisation of algae, plankton and other organisms. This process forms hydrocarbons, which are compounds consisting entirely of hydrogen and carbon that are powerful combustible fuels.

When organisms such as algae and plankton die, they sink to the bottom of the sea and lakes. These low-lying areas form part of sedimentary basins that are then filled up over tens of millions of years by fragmented material that hardens into rock layers, including sandstone, shale and coal seams. The organic materials that are trapped in the rock layers break down to hydrocarbons (i.e. oil and gas).

Figure A.1 illustrates the depths of different gas and oil wells, including coal seam gas, sandstone and shale gas wells.

Figure A.1: Depth of Different Oil and Gas Wells



Source: Australian Petroleum Production and Exploration Association ('APPEA')

Oil and gas can be categorised as either conventional or unconventional petroleum resources. Conventional petroleum resources are oil and gas found in sandstone which is extracted using traditional methods such as drilling, allowing the petroleum to flow up through the well.

Unconventional petroleum resources are oil and gas that require additional technology and investment to exploit. Additional technology, energy and capital are necessary to replace the natural action of the geological processes for hydrocarbon resources in order to extract the oil and gas. Unconventional resources include shale oil, shale gas, coal seam gas and tight gas.

Table A.1 details examples of different types of oils and gases and their uses.

Table A.1: Properties and Uses of Different Types of Oils and Gases

	Description	Uses
Oil:		
Crude oil	Naturally forming liquid hydrocarbons from organic-rich rocks	▪ Transport fuels, such as petrol, diesel and jet fuel ▪ Plastics, chemicals, lubricants, waxes, tars, asphalts and heating oils, such as kerosene ▪ Pesticides and fertilisers
Condensate	Gas in the subsurface reservoir but condenses to a liquid form when brought to the surface	
Oil shale	Fine-grained sedimentary rock containing organic matter that has not completed the thermal maturation process necessary to convert the organic matter to oil (i.e. the rock has not generated and expelled hydrocarbons) which can be transformed to liquid hydrocarbons by mining, crushing, heating, processing and refining	
Gas:		
Natural gas (methane)	Found in several different rocks, including coal seams, sandstone and shale	▪ Electricity generation ▪ Cooking, heating houses and buildings, and heating water ▪ Fertilisers, glass, steels, plastics, paint and fabrics
Coal seam gas (CSG)	Natural gas sourced from coal deposits	
Shale and tight gas	Natural gas that has been trapped in low-fracture, low permeability formations with no natural flow which can be extracted by use of hydraulic fracturing and horizontal drilling techniques	
Liquefied natural gas (LNG)	Natural gas chilled to -161°C until it's in a liquid form which can be reduced to 1/600th of its original size so that it can be transported safely and economically	

Sources: *APPEA, Queensland Government, Australian Government and Geoscience Australia*

A.1.2 Oil and Gas Reserves

Globally, the region with the largest oil reserves is the Middle East, which possesses approximately 810.7 billion barrels of proven oil reserves or approximately 47.7% of the world's total proven oil reserves. The world's largest natural gas reserves are also located in the Middle East, which possesses approximately 79.8 trillion cubic metres of proven gas reserves or approximately 42.7% of the world's total proven gas reserves.

Table A.2 below sets out the geographic spread of global proven oil reserves as at the end of 2014, which represents the latest information available as at the date of this Report.

Table A.2: Global Proven Oil Reserves as at the End of 2014

Location	Oil Reserves (Billion Barrels)	Percentage of Total Global Oil Reserves (%)
Australia	4.0	0.2%
North America	232.5	13.7%
South and Central America	330.2	19.4%
Europe and Eurasia	154.8	9.1%
Middle East	810.7	47.7%
Africa	129.2	7.6%
Asia Pacific (excluding Australia)	38.7	2.3%
Total	**1,700.1**	**100.0%**

Source: *BP Statistical Review of World Energy - June 2015*

Table A.3 below sets out the geographic spread of global proven natural gas reserves as at the end of 2014, which represents the latest information available as at the date of this Report.

Table A.3: Global Proven Natural Gas Reserves as at the End of 2014

Location	Natural Gas Reserves (Trillion Cubic Metres)	Percentage of Total Global Natural Gas Reserves (%)
Australia	3.7	2.0%
North America	12.1	6.5%
South and Central America	7.7	4.1%
Europe and Eurasia	58.0	31.0%
Middle East	79.8	42.7%
Africa	14.2	7.6%
Asia Pacific (excluding Australia)	11.5	6.2%
Total	**187.1**	**100.0%**

Source: *BP Statistical Review of World Energy - June 2015*

Australia had approximately 4 billion barrels of proven oil reserves and approximately 3.7 trillion cubic metres of proven natural gas reserves as at the end of 2014. The United States of America ('US') had approximately 48.5 billion barrels of proven oil reserves and approximately 9.8 trillion cubic metres of proven natural gas reserves as at the end of 2014.

In the US, the application of modern hydraulic fracturing and horizontal drilling techniques has increased the potential for additional unconventional oil and gas reserves to be discovered, particularly in the form of shale gas. The US Energy Information Administration estimates the US may have recoverable shale gas reserves totalling 482 trillion cubic feet and predicts US shale gas production will make up 46% of US natural gas supply by 2035, up from 1% in 2000 and 23% in 2010. The emergence of shale gas as a major new energy source in the US has triggered a rapid increase in natural gas production and is expected to gradually move the US from being a net importer of oil currently to being a net exporter of oil by the year 2035.[7]

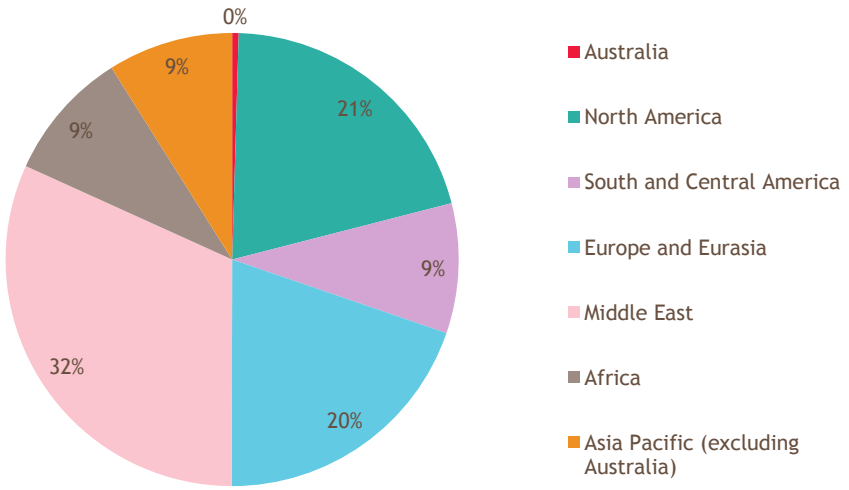
A.1.3 Oil and Gas Production

The largest oil producing region in the world is the Middle East which produced approximately 1,339.5 million tonnes of oil in 2014, or approximately 31.7% of the world's total oil production. The largest natural gas producing region in the world is Europe and Eurasia which produced approximately 1,002.4 billion cubic metres of natural gas in 2014, or approximately 28.8% of the world's total natural gas production.

The three largest producers of barrels of oil and natural gas equivalents ('boe') in 2014 were all National Oil Companies that operate as an extension of the government in their respective countries. These are Saudi Aramco (12.0 million boe per day), Gazprom (8.3 million boe per day) and National Iranian Oil Company (6.0 million boe per day).

Figure A.2 below sets out the geographic spread of global oil production in 2014, which represents the latest information available as at the date of this Report.

Figure A.2: Global Oil Production in 2014

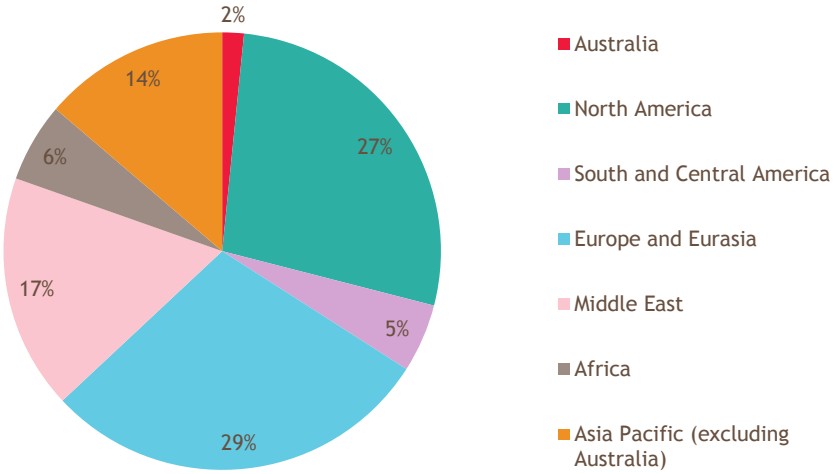


Source: BP Statistical Review of World Energy - June 2015

[7] APPEA

Figure A.3 below sets out the geographic spread of global natural gas production in 2014, which represents the latest information available as at the date of this Report.

Figure A.3: Global Natural Gas Production in 2014



Source: BP Statistical Review of World Energy - June 2015

Australia produced 17.9 million tonnes of oil in 2013, a 16.8% decrease on the amount of oil output in 2012. In addition, Australia produced approximately 42.9 billion cubic metres of natural gas in 2013, a 0.9% decrease over the amount of natural gas produced in 2012.

The US produced 446.2 million tonnes of oil in 2013, a 13.5% increase on the amount of oil output in 2012. In addition, the US produced approximately 687.6 billion cubic metres of natural gas in 2013, a 1.3% increase over the amount of natural gas produced in 2012.

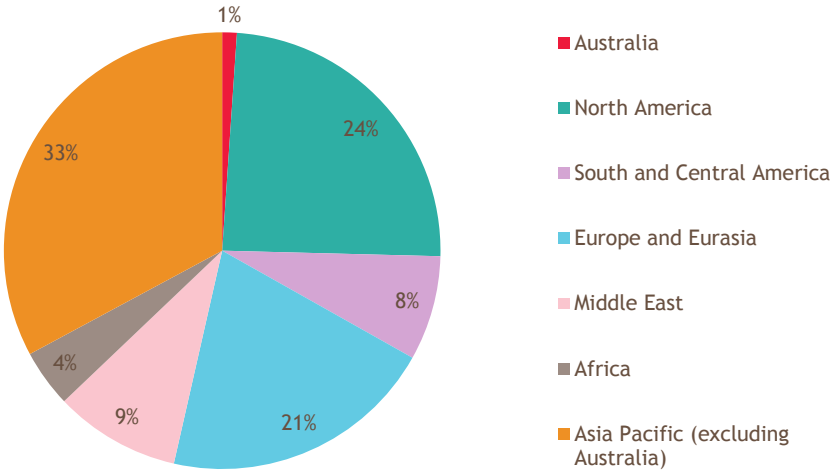
A.1.4 Consumption of Oil and Gas

The demand for petroleum and gas products is linked to overall levels of activity in the economy. As domestic economic activity speeds up or slows down, so does growth in the demand for oil and gas. This means that the demand for oil and gas is a derived one (i.e. it depends on the demand for other goods and services). Foremost amongst these is transport (especially by road and air), which accounts for about 90% of petroleum product demand.

In 2014, global oil consumption grew by a slightly below-average 0.4 million bopd to reach 92.1 million bopd. Countries outside the OECD accounted for 52% of global oil consumption and once again accounted for all the net growth in global consumption.

Figure A.4 below sets out the geographic spread of oil consumption in 2013, which represents the latest information available as at the date of this Report.

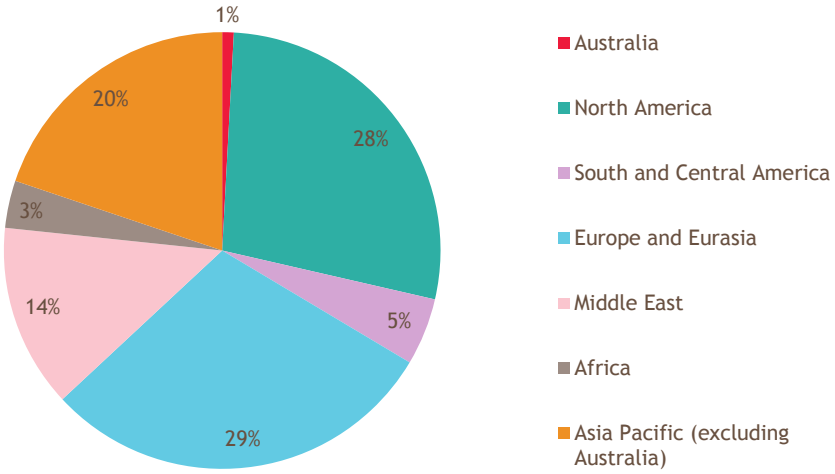
Figure A.4: Global Oil Consumption in 2014



Source: BP Statistical Review of World Energy - June 2015

Figure A.5 below sets out the geographic spread of natural gas consumption in 2014, which represents the latest information available as at the date of this Report.

Figure A.5: Global Natural Gas Consumption in 2014



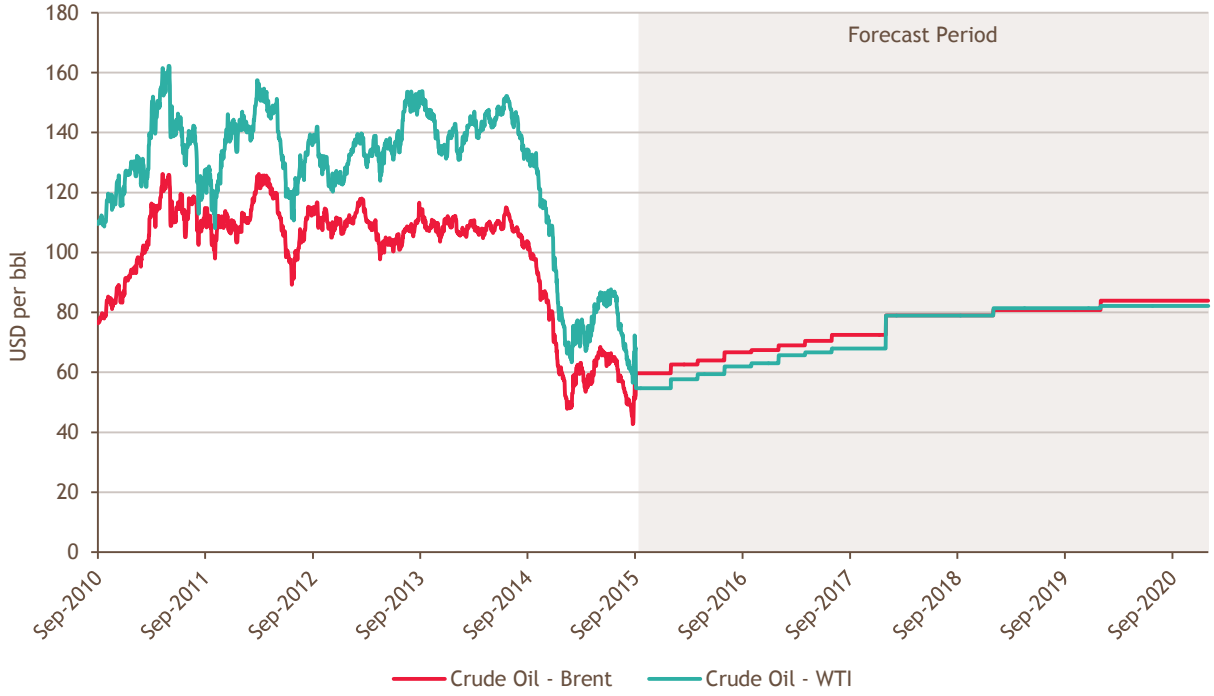
Source: BP Statistical Review of World Energy - June 2015

A.1.5 Oil and Gas Prices

Crude Oil Prices

Figure A.6 sets out the spot price for Brent and WTI crude oil from September 2010 through to September 2015 and for the forecast period to 2020.

Figure A.6: Spot Price of Brent and WTI Crude Oil



Source: Capital IQ

The recent drop in oil price is attributed to increasing production coupled with a decrease in demand due to increasing energy efficiency and the use of alternative energy sources. Particularly influential has been the Organisation of Petroleum Exporting Countries' ('OPEC') unwillingness to decrease production to stabilise markets. This has increased the excess in supply putting additional pressure on prices.[8]

Globally, oil demand is expected to increase by 21 million bpd to 111.1 million bpd by the year 2040. Developing countries (particularly those in Asia) are central to the expected growth in the demand for oil. Rising population, urbanisation, economic expansion, improvising social conditions and the growing need for mobility are all drivers of the increased oil use that will be seen in these countries in the decades ahead. Despite this expected growth, per capita oil use is expected to remain significantly lower in developing countries than in the OECD.[9]

Over the long term, OPEC is expected to supply the majority of the increase in the demand for oil. In the short to medium term, growth in the supply from non-OPEC countries is also expected on the back of significant growth in the recent past. However, the growth in oil supplies from non-OPEC countries is expected to decelerate over time.

In terms of the global energy mix, the share of renewables is expected to continue to grow at a fast pace, partly as a result of government support. However, its share of the global energy mix is expected to remain modest by 2040, with fossil fuels (particularly oil) expected to continue to play the leading role in satisfying world energy needs in the future.[3]

[8] IBIS – Business Environment Profiles (Australia)
[9] World Oil Outlook 2014, Organisation of the Petroleum Exporting Countries

Natural Gas Prices

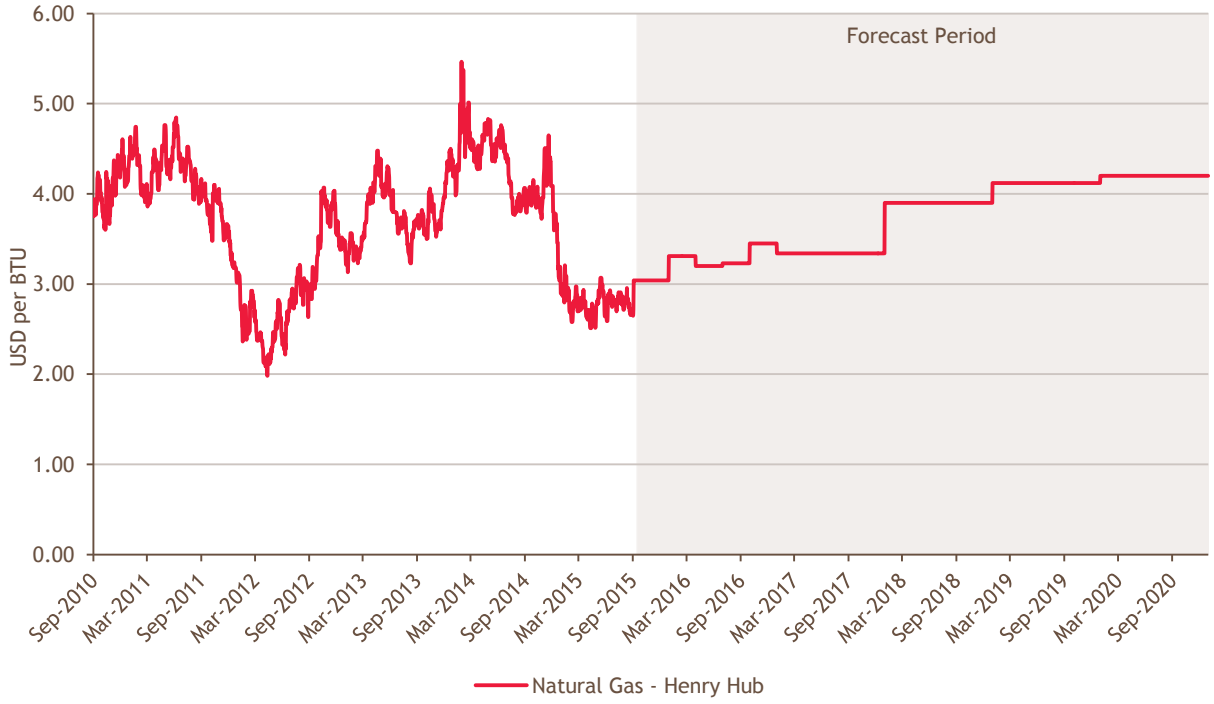
Figure A.7 sets out the spot price for Henry Hub natural gas from September 2010 through to September 2015 and for the forecast period to 2020.

Due to the nature of gas production, it is difficult to shut off gas wells due to the risk of losing the supply entirely. The volatility of prices is due to the globalisation of natural gas, increased competition in natural gas exploration, production and transportation and emergence of shale gas. Natural gas prices are primarily driven by supply and demand fundamentals, but can also be linked to the price of crude oil and/or petroleum products.

The global demand for natural gas is expected to grow by 1.9% per annum to 2035, primarily due to increasing demand from the developing countries. The demand for natural gas from developing countries is expected to increase by 2.5% per annum, with the increase in demand from OECD countries expected to be much more modest at only 1.1% per annum.

Approximately half of the increase in the global demand for natural gas is expected to be sourced from non-OECD conventional gas supplies, particularly the Middle East and Russia. However, OECD shale gas is expected to experience the fastest rate of supply growth at 5.0% per annum. Shale gas supply is dominated by North America, which provides nearly all of the current global supply and is expected to provide around three-quarters of the global supply in 2035.[10]

Figure A.7: Spot Price of Natural Gas (USD per million British thermal units)



Source: Capital IQ

[10] BP Energy Outlook 2015

A.2 Australian Oil and Gas Industry

A.2.1 Northern Australia[11]

The resources sector has driven northern Australia's economy for some time. Exports to China alone increased from $559 million in 2008 to $2.26 billion in 2012. However, the rapid growth in the resource and energy sectors, coupled with increasing competition from the agriculture, tourism and defence sectors has created capacity constraints on northern Australia's infrastructure. Inefficiencies in and around ports and airports will become an increasing barrier to development in the north as industries expand and realise new markets.

Along with conventional oil and gas plays, there are also numerous opportunities to develop northern Australia's onshore tight and shale gas resources. The shale gas potential is viewed as among the best in the world and could be far more productive than Australia's current and past production of oil and gas. Industry analysis and consultation with communities — including Indigenous communities — will be important in informing the further development of these resources.

McArthur Basin[12]

The McArthur Basin in Australia's Northern Territory is an unexplored petroleum frontier basin with direct indications of oil and gas.

Table A.4 below provides and overview of the McArthur Basin's geology and oil and gas potential.

Table A.4: McArthur Basin's Geology and Oil & Gas Prospectivity

Factor	Description
Geology	▪ The McArthur Basin comprises mostly mid-Proterozoic sedimentary rocks ▪ The basin contains marine and non-marine sedimentary rocks up to 12 km thick ▪ Exposed area of about 180,000 km^2
Oil & Gas Prospectivity	▪ The McArthur Basin shale research program with the University of Adelaide Research Unit has identified a number of zones within the Northern Territory basin that show good potential for hydrocarbon prospectivity ▪ Besides its unconventional shale potential, the area also contains numerous conventional anticline, four-way closed structures ▪ Large areas in the north of the basin are effectively unexplored
Infrastructure	▪ There is an existing gas pipeline across the southern part of the McArthur Basin which connects to the Amadeus Gas Pipeline between Alice Springs and Darwin ▪ The tenements of the McArthur Basin are able to be serviced by centre of Nhulunbuy and the Port of Gove ▪ The Carpentaria Highway intersects the McArthur Basin

Sources: *McArthur Basin Shale Gas Play*, Northern Territory Government
Geology of the Northern Territory, Northern Territory Government 2011

Georgina Basin[13]

The Georgina Basin is a region of proven oil potential. The Southern Georgina Basin is considered to be one of the most prospective onshore basins in Australia, with potential for very large conventional and unconventional gas deposits. However, it is virtually unexplored.

[11] *Green Paper on Developing Northern Australia*, Australian Government 2014
[12] McArthur Basin Shale Gas Play, Northern Territory Government and Imperial Oil & Gas 2015
[13] Shale Gas Handbook Australia, Norton Rose Fulbright 2015

Table A.5 below provides an overview of the Georgina Basin's geology and oil and gas potential.

Table A.5: Georgina Basin's Geology and Oil & Gas Prospectivity

Factor	Description
Geology	▪ The Georgina Basin is an extensive, relatively flat-lying Neoproterozoic to Devonian basin ▪ The highest petroleum potential occurs in the southern part of the basin which is a thicker depocentre containing prospective shale units such as the Cambrian Arthur Creek Formation ▪ The central to northern parts of the basin contain thinner shelf sediments, which may reservoir gas or liquids sourced from underlying older Proterozoic basins ▪ Exposed area of approximately 300,000 km^2
Oil & Gas Prospectivity	▪ Geoscience Australia has undertaken a comprehensive geochemical analysis of source rock extracts from existing well data in the basin and has identified at least three valid and active petroleum systems ▪ Cambrian Arthur Creek Formation is a major shale oil and gas target with total organic carbon of 3-4% in the basal 'hot shale' ▪ Numerous untested stratigraphic and structural conventional plays within basin particularly associated with Cambrian stratigraphy
Infrastructure	▪ Limited infrastructure exists at present to transport oil and gas from the Georgina Basin ▪ The Amadeus Gas Pipeline between Alice Springs and Darwin runs to the west of the Georgina Basin ▪ APA Group has reached a heads of agreement with Armour Energy to construct a gas transmission pipeline to supply the Mt Isa market, conditional on Armour Energy and APA Group meeting a number of key milestones

Sources: *Geology of the Northern Territory*, Northern Territory Government 2011
Shale Gas Handbook Australia, Norton Rose Fulbright 2015
Georgina Basin, Northern Territory Government and CORE 2015
Heads of Agreement with APA Group for gas transportation services, Amour Energy ASX announcement, 26 June 2013

Lawn Hill Platform[14]

The Lawn Hill Platform comprises sedimentary and volcanic strata equivalent to the Tawallah and McArthur groups of the McArthur Basin. It is widely developed in the Lawn Hill region of Queensland and extends north-westward into the Northern Territory.

Table A.6 below provides and overview of the Lawn Hill Platform's geology and oil and gas potential.

Table A.6: Lawn Hill Platform's Geology and Oil & Gas Prospectivity

Factor	Description
Geology	▪ The age of the sediments in this area ranges from the Paleoproterozoic to Mesoproterozoic McNamara Group sediments to the younger overlying Mesproterozoic Carpentaria Basin cover

[14] *Geology and Mineral Resources of the Northern Territory*, Northern Territory Government 2010

Factor	Description
Oil & Gas Prospectivity	▪ Little exploration ▪ Armour Energy has identified potential shale plays in the Lawn Hill ▪ There is potential for conventional accumulations along the western part of the basin. These have been targeted by the wells previously drilled in the area, however to date no commercial discovery has been made.
Infrastructure	▪ Limited oil and gas infrastructure ▪ The region hosts mining-oriented towns, bitumen highways, a viable rail system, extensive power grid and large scale water resources

Sources: *Geology of the Northern Territory*, Northern Territory Government 2011
Independent Expert's Report for Armour Energy Limited, MBA Petroleum Consultants 2012
Geology and Mineral Resources of the Northern Territory, Northern Territory Government 2010

A.2.2 Surat Basin[15]

The Surat Basin became the focus for emerging CSG companies from the year 2000 onwards, when it became clear that an analogue existed with various basins in the United States of America, which were producing commercial quantities of gas. The success of the QGC Argyle 1 well in 2000 demonstrated that the Surat Basin could become a significant CSG producer.

Commercial production of CSG from the Jurassic Walloon Coal Measures of the Surat Basin began in January 2006 from the Kogan North CSG area west of Dalby. This was followed in May 2006 by production from the Berwyndale South CSG area, southwest of Chinchilla. CSG is also currently produced from several areas between Dalby and Chinchilla. Surat Basin CSG gas was first used to supply the Swanbank E gas-fired power station near Ipswich in southeast Queensland.

CSG produced commercially from the Walloon Coal Measures is typically obtained from seams between 300 metres and 600 metres. The term Walloon Coal Measures is used for the combined thicknesses of the Taroom Coal Measures (lower) and Tangalooma Sandstone and Juandah Coal Measures (upper).

Oil and gas projects in the Surat Basin have ready access to well-developed infrastructure and supply chain. The basin is located close to the east coast infrastructure network with pipelines to LNG facilities in Gladstone, which provides export facilities to China, Korea, Japan and elsewhere. The Surat Basin is also well connected to the Eastern Australian domestic market suppling energy to Sydney, Melbourne and Brisbane.

A.2.3 South-East Australia[16, 17]

South-Eastern Australia has three geological provinces with oil and gas prospectivity, namely:

- Gippsland Basin;
- Otway Basin; and
- Murray Basin.

The Murray Basin is located entirely onshore and extends across South Australia, New South Wales and Victoria. The Otway and Gippsland Basins are located primarily offshore with smaller fields onshore.

[15] *Queensland's petroleum and coal seam gas*, Department of Natural Resources and Mines 2015
[16] *Petroleum Explorers Guide to Victoria*, Department of Primary Industries 2009
[17] *Unconventional Gas: Coal Seam Gas, Shale Gas and Tight Gas*, Parliament of Victoria 2015

At present, the Victorian Government has announced a Parliamentary Inquiry into onshore unconventional gas exploration and production. The hold, or moratorium, on new exploration licences and tenements for onshore gas, hydraulic fracturing and exploration drilling will remain in place pending the Parliamentary Inquiry's findings and the Government's response. This decision restricts the activities that may be approved for existing tenement holders.

Gippsland Basin

The Gippsland Basin is a well-explored basin and has been the source of all of Victoria's oil production and the majority of its gas production, with almost all derived from the offshore part of the basin. Oil and gas have been discovered in structural and combined structural and stratigraphic traps, within Oligocene, Eocene, Paleocene and Late Cretaceous clastic sequences. Crude oil is thought to have been generated from the maturation of liptinite/exinite, most commonly associated with fine-grained deltaic and lower coastal plain mudstones, and natural gas from the maturation of vitrinite/inertinite, most commonly associated with coal-bearing sediments.

Otway Basin

The Otway Basin extends along the Southern Margin across Victoria and South Australia. The basin contains a number of gas discoveries and some small oil discoveries. In Victoria, substantial gas reserves (approximately 2 trillion cubic feet) have been discovered over the last 15 years offshore, along with a number of smaller fields onshore. Several new significant offshore gas fields have been brought on-stream since 2005 and others are currently under development.

Murray Basin

The Murray Basin, which extends across three states (SA, NSW and Victoria), has yet to yield significant hydrocarbon indications although some gas shows have been reported. Due to the lack of exploration, little is known about the pre-Tertiary sediments. A preliminary regional seismic survey conducted by the Department of Primary Industries in 1996 indicated that a considerable section equivalent to the hydrocarbon-bearing Cooper Basin sequences may be present at depth.

Appendix B Common Valuation Methodologies

A 'fair market value' is often defined as the price that reflects a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. The valuation work set out in this Report assumes this relationship.

There are a number of methodologies available to value an entity at fair market value. In preparing this Report, we have considered, amongst other metrics, the valuation methodologies recommended by ASIC in *RG 111: Content of Expert Reports*. The methodologies include those mentioned directly below.

B.1 Discounted Cash Flows

The discounted cash flow ('DCF') approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

B.2 Capitalisation of Maintainable Earnings

The capitalisation of maintainable earnings ('CME') approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the CME calculation to calculate the total entity value.

The maintainable earnings estimate may require normalisation adjustments for non-commercial, abnormal or extraordinary events.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the maintainable earnings calculation. While this approach also relies to some degree on the availability of market data, the multiple is an alternative way of stating the expected return on an asset.

The CME approach is generally most appropriate where an entity has historical earnings and/or a defined forecast or budget. Further, a CME is usually considered appropriate when relevant comparable information is available.

B.3 Asset Based Valuation

An asset based valuation ('ABV') is used to estimate the fair market value of an entity based on the book value of its identifiable net assets. The ABV approach using a statement of financial position alone may ignore the possibility that an entity's value could exceed the book value of its net assets, however, when used in conjunction with other methods which determine the value of an entity to be greater than the book value of its net assets, it is also possible to arrive at a reliable estimate of the value of intangible assets including goodwill.

Alternatively, adjustments can be made to the book value recorded in the statement of financial position in circumstances where a valuation methodology exists to readily value the identifiable net assets separately and book value is not reflective of the true underlying value. Examples of circumstances where this type of adjustment may be appropriate include when valuing certain types of identifiable intangible assets and/or property, plant and equipment.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

B.4 Market Based Valuation

An MBV methodology determines a value for an entity by having regard to the value at which securities in the entity have recently been purchased. This approach is particularly relevant to:

- Entities whose shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where a sufficient volume of shares is traded and the shares are traded over a sufficiently long period of time; and/or
- Entities for which it is possible to observe recent transactions relating to the transfer of relatively large parcels of shares (e.g. recent capital raisings).

For listed entities, share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

Appendix C Value of Armour Energy Shares

As set out in Section 3.1, there are shares and options in Armour Energy issued to AEP as part of the Proposed Transaction. It is necessary for us to calculate and assume a value the shares and options to be provided to AEP for the purposes of this Report.

This appendix sets out the value of the shares in Armour Energy for the purposes of this Report and is set out as follows:

- Section C.1 summarises our valuation approach; and
- Section C.2 sets out our MBV of Armour Energy prior to the Proposed Transaction.

C.1 Our Valuation Approach

Under the terms of the Proposed Transaction, AEP will obtain a maximum interest in Armour Energy of 16% through the issue of:

- Approximately 17.0 million Armour energy shares at $0.20 cents per share once shareholder approval for the Proposed Transaction is granted;
- Approximately 16.8 million shares at $0.20 cents per share once the Binding Proposed Farm-out is complete; and
- 24 million options once the Binding Proposed Farm-out is complete with terms as follows:
  - 12 million options at an exercise price of $0.25 each expiring in three years;
  - six million options at an exercise price of $0.40 each expiring in five years; and
  - six million options at an exercise price of $0.50 each expiring in five years.

On the basis that this shareholding will not provide AEP with control of Armour Energy, we are of the view that it is appropriate to consider the value of the shares and options on a minority interest basis prior to the Proposed Transaction.

C.2 Market Based Valuation

The shares of Armour Energy are listed on the ASX and there is an observable market for the trading of shares in Armour Energy.

To form a view on the MBV of Armour Energy we have considered:

- Recent share trading data; and
- Significant transactions in Armour Energy shares.

C.2.1 Recent Share Trading Data

We have considered recent trading of Armour Energy shares on the ASX. Table C.1 below sets out the VWAP of Armour Energy shares traded on the ASX for the one week, one month, three months, six months, nine months and 12 months prior to:

- 28 August 2015, being the last trading day before the Westside Bid was announced. We are of the view this announcement impacts the trading data and prices for Armour Energy shares. We note that that a non-binding deal with AEP, similar to but not the same as the Binding Proposed Transaction was announced on 20 August 2015; and

- 18 September 2015, being a date closer to the date of this Report and being a date which may also include market movements in response to the announcements by the Company regarding the acquisition of the Roma Shelf Assets (2 September 2015) and the Binding Proposed Farm-out (11 September 2015).

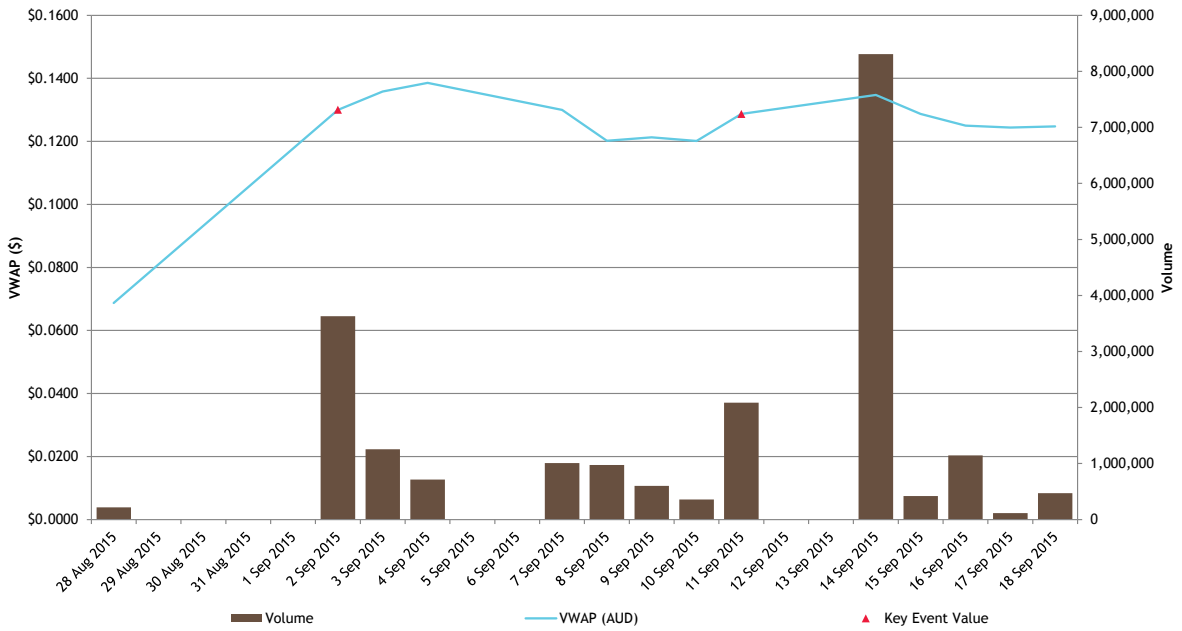
Table C.1: Armour Energy VWAP over Specified Periods

VWAP Period	Prior to 28 August 2015 ($)	Prior to 18 September 2015 ($)
1 Week	$0.0633	$0.1275
1 Month	$0.0535	$0.1033
3 Months	$0.0524	$0.0689
6 Months	$0.0547	$0.0626
9 Months	$0.0557	$0.0612
12 Months	$0.0627	$0.0645

Source: Capital IQ

We have also set out a share price and volume graph for Armour Energy shares for the period 28 August 2015 to 18 September 2015 in Figure C.1 below.

Figure C.1: Daily VWAP and Volume of Armour Energy Shares Traded from 28 August 2015 to 18 September 2015



In relation to Figure C.1 above we note the following:

- Armour Energy's share price increased from $0.0687 on 28 August 2015 to $0.1300 on 2 September 2015 following the announcement of the Westside Bid for the Company;
- Armour Energy's shares (based on the daily VWAP shown above) have traded at or above $0.12 at all times following the announcement of the Westside Bid for the company; and

- Armour Energy's monthly share liquidity increased significantly in September 2015 following the announcement of the Westside Bid. Armour Energy's monthly share liquidity is 6.9% in September 2015 (up to 18 September), up from a monthly average of 1.7% over the previous 12 month period and 3.4% in August 2015.

In our view, given the timing of the announcement of the Proposed Transaction relative to the announcements made in relation to the Binding Proposed Farm-out and the Roma Shelf Assets, it is not unexpected that the share price has traded closer to the $0.12 per share offered by Westside, while the Westside Bid remains on foot.

Further, it is our view that it is reasonable to expect that an investor may not be prepared to pay materially above $0.12 per share until there is a degree of certainty in relation to the Westside Bid or the other announcements made by the Company.

Notwithstanding this, as mentioned above, we note that Armour Energy shares have traded above $0.12 per share at all times following the announcement of the Proposed Transaction and liquidity has increased in the period post the announcement of the Proposed Transaction.

C.2.2 Share Placements

Other than the issue of employee shares under its employee share schemes, the Company has not issued any ordinary shares or completed any capital raisings within the last 12 months.

Under the terms of the Binding Proposed Farm-out, the Company will issue the following shares to AEP, subject to Armour Energy shareholder approval (of both the Binding Proposed Farm-out and the proposed placement):

- **Tranche 1** – Approximately 17 million shares (amounting to 5% of the total shares on issue in Armour Energy after the placement of both Tranches 1 and 2 are completed) at $0.20 per share to raise $3.4 million, conditional upon Armour Energy shareholder approval for both a) the issue of shares to AEP and for b) the Binding Proposed Farm-out; and

- **Tranche 2** – Approximately 16.8 million shares (amounting to 4.99% of the total shares on issue in Armour Energy after the placement of both Tranches 1 and 2 are completed) at $0.20 per share to raise a further $3.36 million, conditional upon closing of the Binding Proposed Farm-out (refer Section 3.1 for the key conditions of the Binding Proposed Farm-out).

Tranches 1 and 2, if completed, will collectively raise $6.8 million and result in an issue of 9.99% of the total Armour Energy ordinary shares on issue at a price of $0.20 per share.

Upon shareholder approval for the issue of shares to AEP and the Binding Proposed Farm-out, AEP will subscribe for a material placement in Armour at $0.20 per share (Tranche 1). In this circumstance, this placement will occur prior to the completion of the Binding Proposed Farm-out and is not conditional on the completion of the Binding Proposed Farm-out.

C.2.3 Market Based Valuation of Armour Energy on Minority Interest Basis

Having regard to the information set out in Sections C.2.1 and C.2.2 above, it is our view that the value of each Armour Energy share adopting an MBV methodology, for the purposes of this Report, is appropriately assumed to be $0.20 on a minority interest basis.

In forming this view we had regard to the following:

- The one week, one month, three month, six month and nine month VWAPs prior to 28 August 2015 (being the last trading day before the announcement of the Proposed Transaction) are in the range of $0.0524 to $0.0633;

- The one week, one month, three month, six month, nine month and twelve month VWAPs prior to 18 September 2015 (being a date closer to the date of this Report) are in the range of $0.0612 to $0.1275;

- Announcements for the Roma Shelf Assets and the Binding Proposed Farm-out were made after the announcement of the Westside Bid;
- AEP have agreed to invest in Tranche 1 of the proposed share placement subject only to shareholder approval of the proposed share placement and the Binding Proposed Farm-out. While this placement is not complete as at the date of this Report, approval of Armour Energy shareholders is outside of AEP's control and AEP will invest a material sum in Armour Energy prior to other conditions relating to the Binding Proposed Farm-out being satisfied; and
- Armour Energy shares have traded above $0.12 per share (having regard to the above mentioned VWAP calculations) at all times following the announcement of the Proposed Transaction; and
- Armour Energy's share liquidity has increased in the period post the announcement of the Proposed Transaction.

Notwithstanding the above mentioned matters, given the timing and number of announcements, it is difficult to estimate an appropriate trading price which considers all relevant announcements and information without the impact of the Westside Bid.

For completeness we note that the lower the share price adopted in this calculation to value the Equity Instruments issued to AEP:

- The higher the value provided to Armour Energy by AEP through the subscription for shares at $0.20 per share; and
- The lower the value of the options provided to AEP by Armour Energy.

Appendix D The SRK Report

Technical Assets Valuation of Armour Energy Limited – Northern Territory

Report Prepared for

BDO Corporate Finance (QLD) Ltd

Report Prepared by

SRK Consulting (Australasia) Pty Ltd

Project Number: AEP017

September 2015

Technical Assets Valuation of Armour Energy Ltd – Northern Territory

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Cover Photo: Cover Photo: Armour Energy Egilabria-2 gas exploration well at depth of 1791 m in the main target Lawn Formation shale. Increased background gas was observed as drilling commenced into the Lawn Shale top at 1660.1 m. The Lawn Hill Formation shale intersected by the well was grey-black with high organic content.

Executive Summary

BDO Corporate Finance (QLD) Ltd (BDO) requested that SRK Consulting (SRK) prepare an independent valuation as outlined in their engagement letter (7th September 2015) and as summarised in Chapter-1 of this report. The technical asset valuation assesses 15 exploration permits, either granted or under application in the Northern Territory.

SRK's Valuation of Armour Energy Limited's (**ASX: AJQ**) assets is required to provide an independent technical expert report (SRK report) to the shareholders of Armour Energy Limited in relation to the farmin by American Energy Partners and affiliate company AEGP Australia Ply Ltd originally announced on the 20th August 2015. The proposed transaction was executed on the 11th September subject to Armour Energy Limited shareholder acceptance. Further, on 31st August 2015 Westside made an offer for Armour Energy Limited. These transactions were considered and were used as a cross check. The SRK report provides a technical asset evaluation carried out from the 10th to 27th September 2015. SRK's opinion is that longer term values are not necessarily reflected in the current market downturn.

Armour Energy Limited is an Australia focused oil exploration and development company listed on the ASX. This valuation report includes petroleum assets as outlined in **Appendix-B (Table A-1**). Two methods have been used for the Valuation of the Petroleum assets:

- Analysis of comparable transactions was used to substantiate that the land value/acre estimated was considered one fair market estimate. The land value/acre was held constant across the Northern Territory exploration permits. Farmin transactions can represent free carries for smaller companies where a path to testing and production is envisaged by the farminee. A free carry in a well or other test work can enable discoveries to be made and production to be eventually achieved based on the value of part or all of an exploration block and farminee share of the risked potential outcome.
- A second approach used for the petroleum permits was the cost multiplier approach, to estimate petroleum exploration permits based on the 'multiples of exploration expenditure' method. This utilised expenditures available from the Northern Territory petroleum exploration permits. The basis of the multiples was the exploration milestone success achieved by the various block expenditures. For example, Proved hydrocarbons (Contingent Resources) based on DST tests and Pilot Production tests were attributed the highest value increase multiples as they demonstrate both discovered hydrocarbons and potential for cost analysis leading to possible economic production of the vast quantities of the Prospective Resources identified. Permits with only Prospective Resources were given a lesser value multiplier. Granted applications were given a smaller multiplier and applications were attributed only book value of the application. Often a range of Resources were contained in the same block. Existing data was not considered relevant to estimating value as all permits contained greater or lesser amounts of publically available data. Some permits had large existing expenditures and even contained wells available for re-entry. Only expenditure and the increased land values derived from Armour expenditure and re-use of old data (typically G&G) were considered to have added substantial value.

Armour Energy Limited holds a large petroleum acreage portfolio involving granted exploration and permits under application. In addition, many of the exploration permits under application are classified as 'preferred tenderer'.

Contingent and Prospective Resource estimates have previously been identified on several Armour Energy Limited's assets. These provide a firm basis of the likelihood of significant recoverable petroleum being discovered within what is a very large acreage portfolio. Other Prospective Resource estimates are provided in the SRK Report. Both unconventional and conventional hydrocarbon prospectivity is considered in the SRK Report.

Prospective Resource values for petroleum can reflect the costs associated with completing each stage of exploration and the probability of progressing to each subsequent stage. These could be determined for some exploration permits but further modelling is required to enable meaningful project risking and the more detailed calculation of values. The current Prospective and Contingent Resources have therefore been valued on the basis of similar resource transactions. All comparisons are based on the most likely best estimate (P_{50} or 2C numbers) and permit status.

SRK's technical evaluation was carried out in accordance with the VALMIN Code, detailed below.

"**Value**" is defined in the VALMIN Code as:

... the fair market value of a mineral or petroleum asset or security. It is the amount of money (or the cash equivalent of some other consideration) determined by the expert in accordance with the provisions of the VALMIN Code for which the mineral or petroleum asset or security should change hands on the valuation date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion.'

Where applicable, the assessed values for each asset are based on available comparable transaction information, multiples of exploration expenditure and ratings of the main characteristics of the properties to determine the overall project value.

SRK's preferred values and value ranges for the technical valuation are presented in **Table ES-1**. The petroleum high and low are based on three recent market transactions which are considered comparable, using these transactions to calculate an A$/acre value which has been used to value the granted tenure in the Northern Territory that has Prospective and/or Contingent resources (EP171, EP176 and EP190). Granted exploration permits (EP174, EP191 and EP192) are excluded from the Comparable Transactions on the basis that they have minimal exploration expenditure and do not have resource estimates assigned. Permits under application have been given a nil value in the Comparable Transaction assessment.

The low and high valuation of the petroleum exploration permits based on the comparable transactions has a wide range of A$54.2 MM – A$183.0 MM with a median value of A$101.2 MM. SRK considers the high value an outlier, and the median value has been selected as the high of the valuation range. The estimate based on expenditure multiples comes to A$69.4 MM, and this value is considered representative of the early stage of exploration for these exploration permit blocks, and is our preferred value.

Table ES-1: Technical assets valuation – Total for petroleum tenements assessed by SRK in our current report (exploration permits under application have a nil value currently)

Resources	Low (A$ MM)	Preferred (A$ MM)	High (A$ MM)
Petroleum	54.2	69.4	101.2

On this basis SRK considers the valuation of the Armour assets we have reported is above A$54.2 MM with a preferred value of A$69.4 MM.

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Glossary of Oil and Gas Terms

%	Percent	Mdfpd	thousand barrels of fluid per day
A$	Australian dollar	Mboepd	thousand barrels of oil equivalent per day
$A MM	Million Australian dollars	Mbopd	thousand barrels of oil per day
bbl	barrel		
BBTU	billions of British Thermal units	Mbwpd	thousand barrels of water per day
BBTU/d	billions of British Thermal Units per day	MMbbl	million barrels of oil
Bcf	billion cubic feet of gas	Mmboe	million barrels of oil equivalent
bscf	billion standard cubic feet of gas	MMBTU	millions of British thermal units
bcpd	barrels of condensate per day	MMscf	million standard cubic feet of gas
bfpd	barrels of fluid per day	MMscfd.	million standard cubic feet of gas per day
boe	barrels of oil equivalent	MOL	an amount of a chemical substance that contains as many elementary entities (e.g. atoms, molecules) as there are atoms in 12 grams of pure carbon-12 (approx. 6×10^{23} elementary entities of the substance)
boepd	barrels of oil equivalent per day	MW	megawatt
bopd	barrels of oil per day	NGLs	Natural Gas Liquids
Bwpd	barrels of water per day	NZP&M.	New Zealand Petroleum & Minerals, the New Zealand Government body charged with managing New Zealand's oil, gas, mineral and coal resources, refer to website www.nzpam.govt.nz
Capex	capital expenditure	Opex	operating expenditure
E&A	Exploration and Appraisal	Permeability	measure of the ease with which a fluid flows through a rock. The units are millidarcies or darcies
EIA	Environmental Impact Assessment	PJ	Petajoules
EPC	Engineering, Procurement and Construction	PLCR	Project Life Cover Ratio
FOA	Farm Out Agreement	POD	Plan of Development
FPSO	Floating Production Storage and Offloading vessel	Porosity.	measure of how much of a rock is open space. This space can be between grains or within cracks or cavities of the rock. Measured in %.
FSO	Floating Storage and Offloading vessel	PSC	Production Sharing Contract
FTP	First Tranche Petroleum	STOIIP	Stock Tank Oil Initially In Place
G&A	General and Administrative	Tapis	Malaysian crude used for benchmark

			pricing in Singapore
G&G	Geology and Geophysics	Tcf	trillion standard cubic feet of gas
GBP	British Pound, the lawful currency of the United Kingdom	US$.	United States Dollar, the lawful currency of the United States of America
GSA	Gas Sales Agreement	VMS	Volcanogenic massive sulphides
ISPC	Incremental Production Sharing Agreement	WHP	Wellhead Platform
JOA	Joint Operating Agreement	WI	Working Interest
JOB	Joint Operating Body	WTI	West Texas Intermediate used for benchmark pricing in North America
km	Kilometre		
L/t	Litres/tonne		
LLCR	Loan Life Cover Ratio		
M	metre		
MM	Million		
Mbcpd	thousand barrels of condensate per day		
mD	millidarcy		

Disclaimer

This report is based on data and materials provided by Armour and by public domain research carried out by SRK. The information provided by Armour consisted of background information, copies of licenses and applications plus maps and reports.

The opinions expressed in this Report have been based on the information supplied to SRK by Armour. The opinions in this Report are provided in response to a specific request from Armour to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this Report refer to conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK had no prior knowledge nor had the opportunity to evaluate.

Warranties and Indemnities

Armour has warranted to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

As recommended by the VALMIN Code, Armour has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required which:

- Results from SRK's reliance on information provided by Armour or to Armour not providing material information; or,
- Relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

Consent

SRK consents to this Report being used by BDO, in the form and context in which the technical assessment is provided, and not for any other purpose. SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report.

PRMS Definitions and Guidelines – Summary

(Further details are provided in **Appendix A**)

CONTINGENT RESOURCES are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

UNRECOVERABLE is that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur, the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

PRMS Guidelines 2011 state: Contingent Resources may be assigned for projects that are dependent on "technology under development." It is recommended that the following guidelines are considered to distinguish these from quantities that should be classified as Unrecoverable:

1 The technology has been demonstrated to be commercially viable in analogous reservoirs. Discovered recoverable quantities may be classified as Contingent Resources.

2 The technology has been demonstrated to be commercially viable in other reservoirs that are not analogous, and a pilot project will be necessary to demonstrate commerciality for this reservoir. If a pilot project is planned and budgeted, discovered recoverable quantities from the full project may be classified as Contingent Resources. If no pilot project is currently planned, all quantities should be classified as Unrecoverable.

3 The technology has not been demonstrated to be commercially viable but is currently under active development, and there is sufficient direct evidence (e.g. from a test project) to indicate that it may reasonably be expected to be available for commercial application within 5 years. Discovered Recoverable quantities from the full project may be classified as Contingent Resources.

4 The technology has not been demonstrated to be commercially viable and is not currently under active development, and/or there is not yet any direct evidence to indicate that it may reasonably be expected to be available for commercial application within five years. All quantities should be classified as Unrecoverable.

Definition of Prospective Resources, P_{90}, P_{10}, P_{50}.

While there may be a significant risk that sub-commercial or undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable volumes independently of such a risk.

Prospective Resources are those quantities of petroleum which are estimated to be potentially recoverable from undiscovered accumulations. These estimates are derived from volumetric estimates for the reservoir size, estimates of the reservoir characteristics (porosity, permeability, oil saturation). The basis of these estimates would be available geological and geophysical data, and the data from any existing wells in the given area. Any estimation of resource quantities for an accumulation is subject to both technical and commercial uncertainties and consequently there will be a range of estimates which in general will be substantially greater for undiscovered accumulations than for discovered accumulations. In all cases, however, the actual range will be dependent on the amount and quality of data (both technical and commercial) which is available for that accumulation. As more data become available for a specific accumulation (for example wells and reservoir performance data) the range of uncertainty would be reduced. Probabilistic methods are normally used to quantify the uncertainty in these estimated quantities and the results of the analysis are typically presented by stating resource quantities at the following levels of confidence:

- **P_{90} resource** reflects a volume estimate that, assuming the accumulation is developed, there is a 90% probability that the quantities actually recovered will equal or exceed the estimate. This is therefore a low estimate of resource.
- **P_{50} resource** reflects a volume estimate that, assuming the accumulation is developed, there is a 50% probability that the quantities actually recovered will equal or exceed the estimate. This is therefore a median estimate of resource.
- **P_{10} resource** reflects a volume estimate that, assuming the accumulation is developed, there is a 10% probability that the quantities actually recovered will equal or exceed the estimate. This is therefore a high estimate of resource.

Statement of Competency

Dr Bruce Alan McConachie

Dr Bruce Alan McConachie is a geologist with extensive experience in economic resource evaluation and exploration. His career spans over 30 years and includes production, development and exploration experience in petroleum, coal, bauxite and various industrial minerals.

Work history includes:

- **Comalco: 15 years (Rio Tinto-Alcan)** - Chemist, Mine Geologist, Planning Engineer, Senior Geologist and Team Leader (Petroleum Group)
- **Australian Geological Survey Organisation / Bureau of Mineral Resources:** 2½ years (Geoscience Australia) - Senior Research Scientist (Petroleum Systems Petrel Sub-basin Project)
- **Santos:** 7 years - Senior Geologist, Team Leader and Chief Geologist – Indonesia
- **BHP Billiton**: 2½ years - Global Bauxite Commodity Specialist and Manager Bulk Commodities
- **SRK Consulting**: 7 years – Principal Consultant (Manager Petroleum Group)

Experience:

Extensive relevant experience covering petroleum exploration programs, joint venture management, farmin and farmout deals, onshore and offshore operations, field evaluation and development, oil and gas production and economic assessment, and relevant experience assessing petroleum resources under the PRMS code and mineral commodities under the JORC code.

Industry Group Memberships:

- The Australasian Institute of Mining and Metallurgy (AusIMM) – 30 Years
- American Association of Petroleum Geologists (AAPG) – 15 Years
- Petroleum Exploration Society Australia (PESA) and
- Society of Petroleum Engineers (SPE).

Qualifications:

- Graduate degrees in geology and analytical chemistry
- Master of Applied Science by research and thesis on the coal geology of the Bowen Basin, Queensland
- Doctor of Philosophy by dissertation on foreland and fold belt basin analysis to characterise petroleum and mineral systems and deposits

I am a fulltime employee of SRK Consulting and am an experienced petroleum reserves and resources estimator with over 15 years relevant experience. I have adhered to the ASX Listing Rules Guidance Note 32. My qualifications and experience meet the requirements to act as a Competent Person to report petroleum reserves under PRMS (2007) and value assets under the Valmin Code of the AusIMM.

The data and interpretations presented in this document accurately reflect my view of Armour Energy Ltd's assets that are the subject of the report.

Dr Bruce Alan McConachie

1 Introduction and Scope of Report

SRK Consulting was engaged by BDO Corporate Finance (QLD) Ltd (Herein BDO) to produce the following Independent Technical Valuation report of certain assets of Armour Energy Limited (defined as the oil and gas assets of Armour Energy Limited in the Northern Territory), as follows:

1. We were requested to provide a report to BDO on the current fair market value of each of the Assets ('the SRK Report'). In particular, BDO have requested us to state in our report the value that each of the Assets would change hands for as at the date of BDO's Independent Expert's Report in an open and unrestricted market between a willing buyer and a willing seller in an 'arm's length' transaction, with each party acting knowledgeably, prudently and without compulsion.

2. We were requested to provide BDO with the following:

   - A report with a detailed valuation of the Assets;
   - A statement of compliance in the SRK Report that the valuations are prepared in accordance with the PRMS or VALMIN Code as applicable to the Assets;
   - Information on all key assumptions underpinning our valuation;
   - A statement in the SRK Report that the valuations of the Assets represent SRK's estimate of a fair market value for the Assets including a definition of fair market value; and,
   - Our consent to allow BDO to refer to and rely on the SRK Report to assist BDO to determine the current fair market value of the Assets for the purposes of their Report.

Armour Energy Limited **(ASX: AJQ)** is an Australian oil exploration and development-focused company listed on the ASX with a strategy to build a sustainable mid-tier oil and gas business by acquisition and organic growth. For the purpose of this report, American Energy Partners will be abbreviated to '**AEP**', AEGP Australia Pty Ltd to '**AEGP**', Armour Energy Limited to '**Armour**', BDO Corporate Finance Qld Ltd to '**BDO**', and SRK Consulting (Australasia) Pty Ltd to **SRK**.

1.1 Armour Market Capitalisation

The full Armour market capital value (304 MM shares at 12¢ per share) was A$38 MM on 28th September 2015.

1.2 Oil Price Variations and Forecast

The crude oil price based on West Texas Intermediate pricing (WTI) is shown in **Figure 1-1**. The A$ to US$ conversion has also changed significantly from its high in 2013 to its low present-day (**Figure 1-2**). SRK valuations are expressed in Australian dollars (A$) and the WTI oil price in A$ is shown in **Figure 1-3**. SRK notes that Tapis pricing is more applicable to Australian oil values.

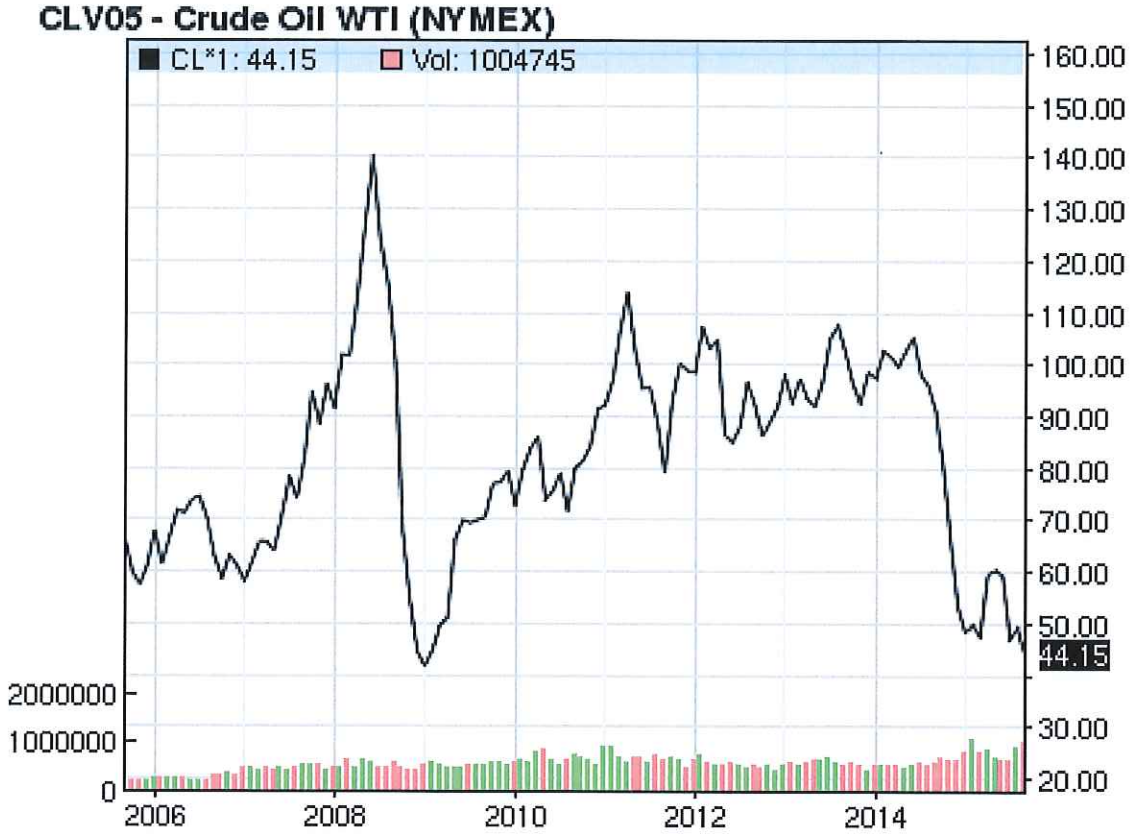

Figure 1-1: West Texas intermediate oil price (WTI, US$) – 2006 to present

Figure 1-2: Comparison of the Australian (A$) and American dollars (US$) – 2006 to present

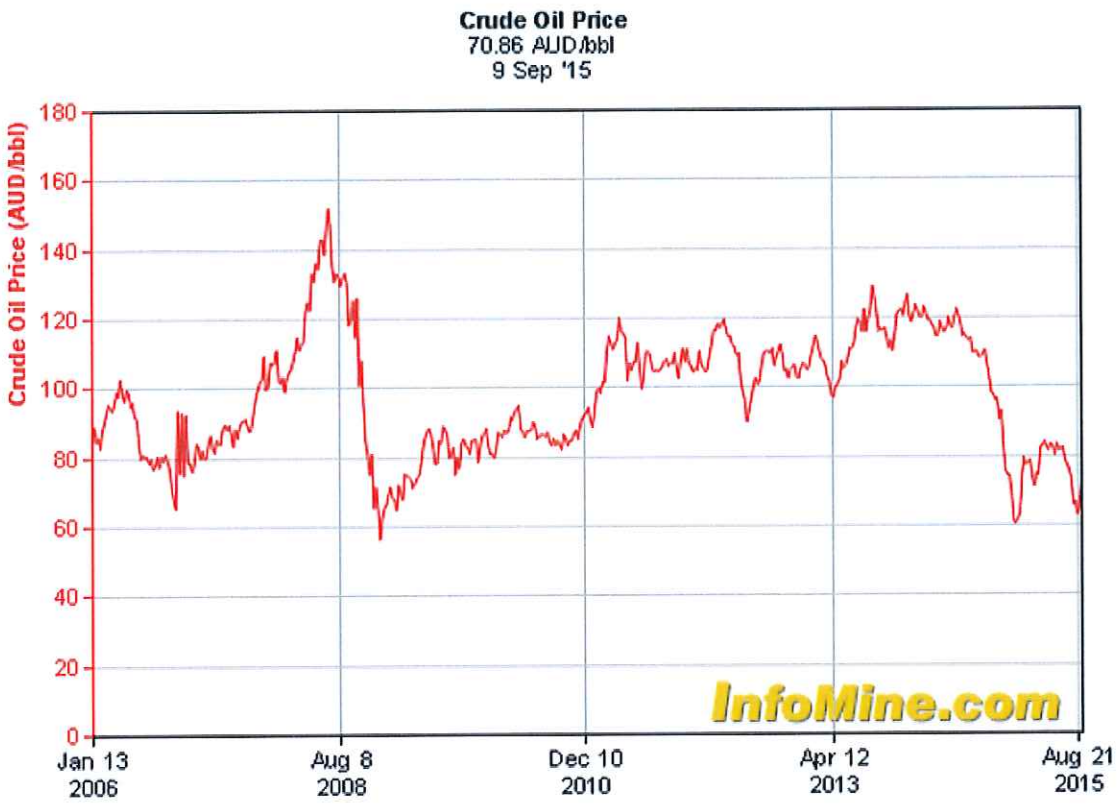

Figure 1-3: West Texas Intermediate oil price (WTI, A$) – 2006 to present

The lower Australian dollar and the conversion to Tapis pricing (about 10–20% higher than WTI) are significant factors for Australian-related pricing of oil-based assets; however, this consideration is captured in the available valuations.

Based on the global oil supply and the likelihood of increased global unconventional oil and gas supplies meeting any expanded demand, SRK produced the following oil price forecast in January 2015. This prediction models WTI oil prices recovering to around US$75 by about 2019 and remaining stable thereafter for the likely foreseeable future with unconventional production ramping up as prices increase **(Figure 1-4)**. In this report, SRK has used a price of US$51.28 for the 3-month average (Jun. to Aug. 2015), Crude Oil (petroleum), West Texas Intermediate 40 API, Midland Texas Source IM (Source IMF).

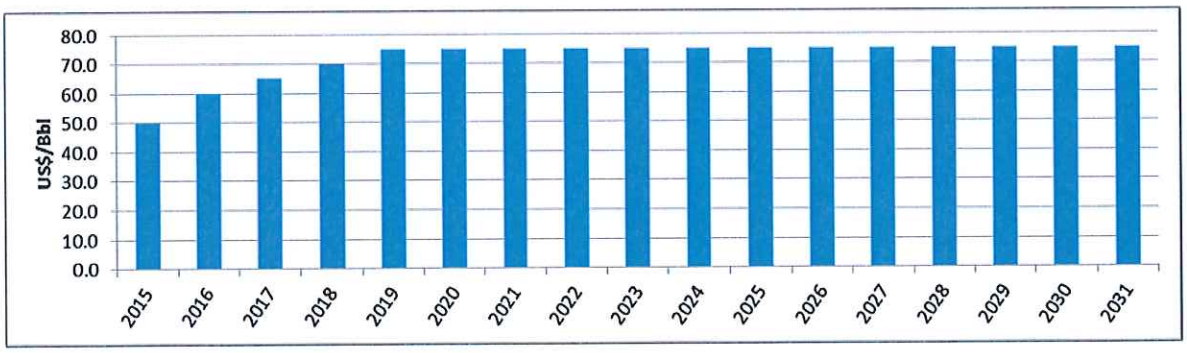

Figure 1-4: SRK modelled oil price forecast as at January 2015

2 The VALMIN Code

2.1 Definitions

"**Value**" is defined in the VALMIN Code as:

... the fair market value of a mineral or petroleum asset or security. It is the amount of money (or the cash equivalent of some other consideration) determined by the expert in accordance with the provisions of the VALMIN Code for which the mineral or petroleum asset or security should change hands on the valuation date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion.'

All exploration projects can be classified according to the Development Stage Categories as defined by The VALMIN Committee (2005).

- **Exploration Areas –** properties where mineralisation may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified.
- **Advanced Exploration Areas –** properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the resource category.
- **Pre-Development Projects –** properties where Mineral or Petroleum Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral or Petroleum Resources have been identified, even if no further Valuation, Technical Assessment, delineation or advanced exploration is being undertaken.
- **Development Property:** properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels.
- **Operating Mines:** mineral properties, particularly mines and processing plants that have been commissioned and are in production.

While the VALMIN Code 2005 states that decisions as to which valuation methodology is used are the responsibility of the Expert or Specialist, where possible, SRK considers several methods. One aim of the VALMIN code is to compare the results achieved using different methods to select a preferred value within a valuation range. This reflects the uncertainty in the data and interaction of the various assumptions inherent in the valuation. An overview of a number of methods traditionally used to value such early stage Exploration Areas are:

- Comparable Market Transactions (Resource and area-based); and
- Multiples of Exploration Expenditure.

2.2 Valuation Approaches

The three generally accepted Valuation approaches, as listed and defined in the CIMVAL Code (2003) are:

- Income Approach;
- Market Approach; and
- Cost Approach.

The Income Approach is based on the principle of anticipation of benefits and includes all methods that are based on the income or cash flow generation potential of the Mineral Property (CIMVAL, 2003). Valuation methods that follow this approach include Discounted Cash Flow (DCF) modelling, Monte Carlo Analysis, Option Pricing and Probabilistic methods. The Geological Risk Method also falls within this category.

The *Market Approach* is based primarily on the principle of substitution and is also called the Sales Comparison Approach. The Mineral Property being valued is compared with the transaction value of similar Mineral Properties, transacted in an open market (CIMVAL, 2003). Methods include comparable transactions, MTR and option or farm-in agreement terms analysis.

The *Cost Approach* is based on the principle of contribution to value (CIMVAL, 2003). Methods include the appraised value method and multiples of exploration expenditure, where expenditures are analysed for their contribution to the exploration potential of the Mineral Property. Geoscience ratings methods are also considered to fall within this category, as the state of knowledge of an area is often a factor of the effort expended on exploration.

The applicability of the various valuation approaches and methods vary depending on the stage of exploration or development of the property, and hence the amount and quality of the information available on the mineral potential of the property. **Table 2-1** presents CIMVAL's view on the applicability of the various valuation approaches for the valuation of mineral properties at the various stages of exploration and development.

Table 2-1: Suggested asset valuation approaches for different types of mineral properties (CIMVAL)

Valuation approach	Exploration properties	Mineral Resource properties	Development properties	Production properties
Income	No	In some cases	Yes	Yes
Market	Yes	Yes	Yes	Yes
Cost	Yes	In some cases	No	No

Source: (CIMVAL Code, 2003)

The Market approach to valuation is generally accepted as the most suitable approach for valuation of an Exploration Property, a Mineral Resource Property or a Pre-Development Project.

The use of income-based methods, such as DCF modelling, is generally preferred in situations where Mineral Reserves, supported by suitably detailed mining studies, have been declared.

In general these methods are accepted analytical valuation approaches that are in common use for determining Fair Market Value (defined below) of mineral assets, using market derived data.

The **"Fair Market Value"** is defined in the VALMIN Code 2005 as, in respect of a petroleum or mineral asset, the amount of money (or the cash equivalent of some other consideration) determined by the relevant expert in accordance with the provisions of the VALMIN Code 2005 for which the mineral asset should change hands on the relevant date in an open and unrestricted market between a willing buyer and a willing seller in an 'arm's length' transaction, with each party acting knowledgeably, prudently and without compulsion. The Fair Market Value is usually comprised of two components, the underlying Technical Value (defined below) of the mineral asset, and a premium or discount related to market, strategic or other considerations.

The **"Technical Value"** is defined in the VALMIN Code 2005 as an assessment of a petroleum or mineral asset's future net economic benefit at the valuation date under a set of assumptions deemed most appropriate by a relevant expert or specialist, excluding any premium or discount to account for such factors as market or strategic considerations.

Valuation methods are, in general, subsets of valuation approaches and for example the Income Based Approach comprises several methods. Furthermore, some methods can be considered to be primary methods for valuation while others are secondary methods or rules of thumb considered suitable only to benchmark valuations completed using primary methods.

In summary, however, the various recognised valuation methods are designed to provide an estimate of the mineral asset or property value in each of the various categories of development. In some instances, a particular mineral asset or property or project may comprise assets which logically fall under more than one of the previously discussed development categories.

3 Petroleum Exploration

Armour has petroleum assets in North Queensland, Northern Territory and Victoria. Only permits relating to the AEGP farmin are considered in the SRK report.

Much of the geology of the Northern Territory is best reviewed and gleaned from the most recent NTGS publication (Munson, 2014). Much of the geological information contained within Munson (2014) underpins much of the technical asset valuations contained hereunder – the geology will not be paraphrased in sections following.

The land areas pertaining to the petroleum and exploration permits have been calculated in GIS using the geocentric datum GDA94 as reference. Minor differences in the land areas as estimated by different stakeholders will occur although differences are considered small in relation to the total asset value. For example, the land area of EP171 as estimated by SRK is 853,276 acres whereas that quoted in the AEGP farmin document is 839,170, a difference of 1.7%. Such differences are considered small relative to the overall final technical asset valuation.

3.1 Northern Territory

3.1.1 Exploration Permits

Australian Mining and Exploration Title Services (AMETS) have conducted a search for petroleum exploration permits held by Armour. Petroleum exploration permits and Petroleum Resources within those permits are tabulated in **Table 3-1 and Table 3-2,** respectively. A location map is provided in **Figure 3-1**.

Table 3-1: Exploration permits held by Armour – Northern Territory, (A – under application)

Permit	Grant date	Application date	Expiry date	Tenure (years)	Area (km^2)	Area (acres)	Interest (%)
EP171	29/06/2011	NA	28/06/2016	5	3,453.1	853,276	100
EP172(A)	NA	19/12/2009	NA	NA	7,091.4	1,752,314	NA
EP173(A)	NA	19/12/2009	NA	NA	2,903.4	717,455	NA
EP174	11/12/2012	NA	10/12/2017	5	4,319.5	1,067,374	100
EP176	29/06/2011	NA	28/06/2016	5	8,007.4	1,978,667	100
EP177(A)	NA	6/04/2010	NA	NA	15,899.3	3,928,796	NA
EP178(A)	NA	8/04/2010	NA	NA	15,609.6	3,857,208	NA
EP179(A)	NA	8/04/2010	NA	NA	16,033.8	3,962,027	NA
EP190	11/12/2012	NA	10/12/2017	5	12,760.6	3,153,221	100
EP191	03/10/2013	NA	02/10/2018	5	15,163.8	3,747,062	100
EP192	03/10/2013	NA	02/10/2018	5	9,454.5	2,336,268	100
EP193(A)	NA	13/08/2010	NA	NA	1,348.4	333,199	NA
EP194(A)	NA	13/08/2010	NA	NA	2,330.6	575,904	NA
EP195(A)	NA	13/08/2010	NA	NA	3,296.1	814,478	NA
EP196(A)	NA	13/08/2010	NA	NA	735.2	181,670	NA

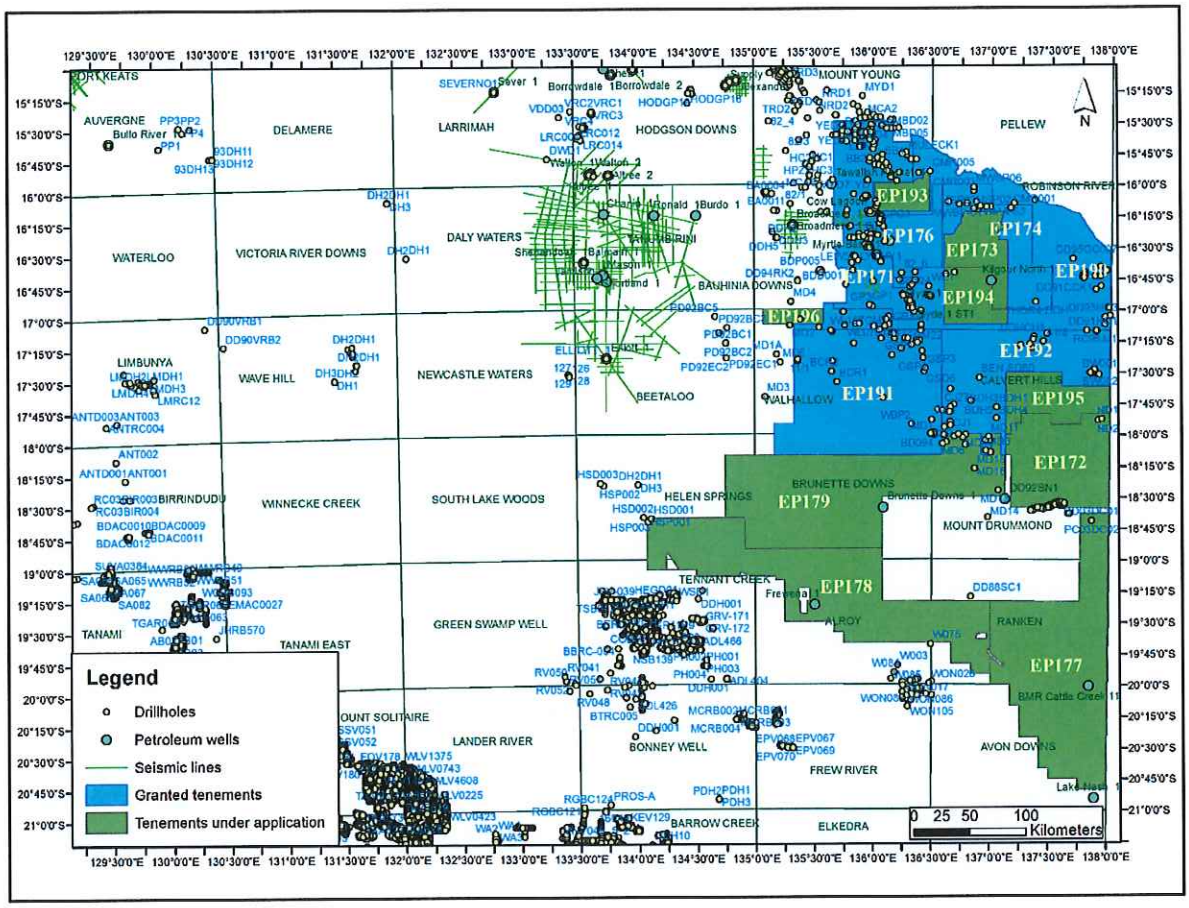

Figure 3-1: Location map – Armour petroleum exploration permits, Northern Territory

(Source: SRK, GDA94)

3.1.2 Prospectivity and Geology

Armour's total combined, Best Estimate Prospective Recoverable Gas Resources in Northern Australia is 34.9 Trillion cubic feet (Tscf), as of September 2015 (refer **Section 3.2**). The Wollogorang and McDermott of the Tawallah Group and the Barney Creek of the McArthur Group are the unconventional reservoirs currently targeted in addition to, 193 conventional leads and prospects targeting 4.9 Tscf of Best Estimate Prospective Recoverable Gas Resources from the Coxco, Reward and Lynott Formations of the MacArthur Group and a host of conventional reservoirs in the Tawallah Group, including the Masterton Sandstone, Wununmantyala Sandstone, Rosie Creek Sandstone, Sly Creek Sandstone. Armour has reported oil and gas discoveries in the Cow Lagoon-1, Glyde-1 & Glyde-1 ST1, Lamont Pass-3, Myrtle Basin-1 from the McArthur Group and abandoned the Kilgour North-1 due to water handling issues. The Armour Glyde-1 discovery well flowed 3.3 MMscfd from the Coxco Hydrothermal Dolomite of the McArthur Group, EP171, in 2012. This discovery booked 10.1 Bscf of Contingent Resources in an estimated 5.9 km^2 closure. The mapped McArthur Group closures range in size from 119 km^2 to less than 1.0 km^2 and an average depth of 1200 m. The Tawallah Group closures range in size from 97 km^2 to less than 1.0 km^2 and are currently estimated to be 1,000 m to 1,500 m deeper than the overlying McArthur Group.

The permeability in the Coxco Dolomite is believed to be formed by structural brecciation and fracturing along the Emu and Tawallah Faults, together with talus or scree breccias occurring adjacent to faults and areas of solution brecciation in contact with the organic rich shale source rock of the Middle Proterozoic Barney Creek Formation.

The geology of the Coxco targets has been defined by surface mapping and preliminary data from extensive airborne gravity and magnetic surveys recently completed by the Company over the Glyde and Myrtle Sub Basin regions. Additional targets are likely to be defined following completion of the Fugro interpretation of this gravity, magnetic and geological data and integration with other ongoing and parallel structural studies. These interpretations will provide additional drilling targets and high-grade areas to strategically locate further 2D seismic and magnetotelluric surveys.

The geology of the conventional targets of the McArthur and Tawallah Groups' (**Figure 3-2**) have been defined by the review of historical and new well penetrations with live-oil and gas shows, geochemical source rock analysis and porosity/permeability laboratory analysis of core and cuttings carried out by Weatherford Laboratories Australia & USA; FEG-SEM thin section analysis; 2D seismic, airborne geophysical survey interpretation and updated FROGTECH (2015) SEEBASETM integrated mapping study commissioned by Armour to generate subsurface structural grids and closures; petrophysical analysis of available logs; stratigraphic review of published cross-sections; Hylogging, electric log & chemostratigraphic correlation; a CSIRO Study commissioned by Armour on the generative potential of the source rock units; gas composition analysis; literature review and Armour sponsored studies with the University of Queensland (UQ) and Australian School of Petroleum (ASP).

The Tallawah Group source rock play is newly recognised, and could potentially add very significant oil and gas resources to Armour's portfolio, beyond those previously identified by the Company. A recent CSIRO study commissioned by Armour has confirmed oil and gas generative potential in two Tawallah Group shale horizons: the Woologorang and McDermott formations. Core from a number of historic mineral wells, drilled within Armour's permit areas, were sampled and analysed. The results from this analysis have shown that these formations contain good source rock in the oil to wet gas generative window, based on TOC measurements (up to 7.7%) and organic geochemical markers. Another phase of sampling and analysis is underway, which is expected to increase the understanding of these prospective horizons, and inform future exploration activities to appraise the potential.

The Tawallah Group source rocks are believed to underlie the McArthur Group (which includes the Barney Creek Shale) throughout EP176, extending east to the Queensland border and south across EP191. The extent of this newly recognised exploration play within Armour's permits is currently in the order of 52,000 km².

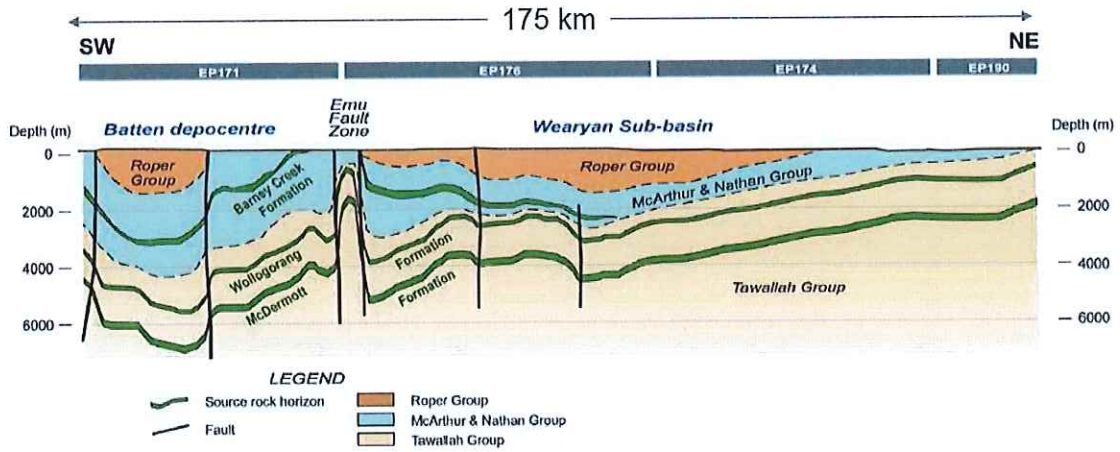

Figure 3-2: Generic-based structural cross-section – Pertinent geology across EP171, EP174, EP176 and EP190

3.2 Petroleum Resources – Northern Territory

Prospective and Contingent Resources have been estimated in the Northern Territory – these are tabulated in

Table 3-2: Estimated Prospective Recoverable Resources – Northern Territory

Area	Accessor Report	Reservoir Type/Name	Estimated Recoverable Gas Resource (Bscf)		
			Low	Best	High
NT	SRK[4]	Conventional Closures Wollogorang	61	647	6,893
NT	SRK[4]	Conventional Closures McDermott	149	1,548	16,557
NT	SRK[4]	Conventional Closures Coxco	890	2,254	5,780
NT	D&M[2]	Conventional Closures Coxco	187	244	312
NT	MBA[1]	Conventional Closures Coxco	50	150	347
			1,337	**4,843**	**29,889**
NT	SRK[4]	Unconventional Wollogorang Shale	5	6,900	141,40
NT	SRK[4]	Unconventional McDermott Shale	26	10,120	152,10
NT	MBA[1]	Unconventional Barney Creek Shale	3,801	12,971	39,085
			3,832	**29,991**	**332,59**
Total NT Prospective Resources			**5,169**	**34,834**	**362,48**

Table 3-3: Contingent Resources – Northern Territory

Area	Accessor Report	Reservoir Type/Name	Contingent Gas Resource (Bs		
			1C	2C	
NT	D&M[5]	Conventional Closure Coxco	2.4	6.0	1
Total NT Contingent Resources			**2.4**	**6.0**	**1**

Table 3-2 and Table 3-3 – Footnotes relating to Armour resource reports

[1] MBA Report, Conventional and Unconventional Prospective Resource Estimate EP 171 & EP 176, NT, Octol

[2] D&M Report, Prospective Resources Attributed to Certain Prospects in Various License Blocks, NT, April 20

[3] SRK Report, Coxco Dolomite Resource Evaluation Batten Trough, McArthur Basin, EP 171, 176, 190, NT, N

[5] SRK Report, SRK Report, Conventional and Unconventional Resource Assessment of the Wollogorang and NT, September 2015

[9] D&M Report, Contingent Resources in Exploration Permit 171 in the Northern Territory, Australia with inte April 2013

4 Technical Asset Valuation – Petroleum Exploration Permits

Key factors to be considered in this asset evaluation are outlined in **Table 4-1** and expanded upon below.

One consideration is Armour's permits that are granted versus those under application and whether they reside under the minerals or petroleum act. There could be a case to consider differentiating the valuation of different exploration permits based on the overlap of minerals exploration permits onto petroleum exploration permits. In one respect, areas of overlap would increase the knowledge base in minerals exploration permits as the result of petroleum exploration wells being drilled. The reverse could also be true although petroleum exploration targets are deeper (i.e. ~ 2–4 km) than minerals exploration targets (i.e. typically surface to 1 km), the latter thereby not adding significant value. However, exploration seismic and/or drilling and/or open-pit mining would impact on access to the common acreage, thereby, potentially impacting on value. The above have not been taken into account in differentiating value between permits as these differentiators are judged as minor at this early stage of exploration.

Table 4-1: Factors to be considered in the valuation of Armour's assets

Factor	Credit	Deficit	Description
Financial			
Company cash remaining	√		Company liquid is outlined in the annual report 2015
Company debt		√	Company debt is outlined in the annual report 2015. The company has sufficient funds to meet operating requirements.
Exploration			
Permit granted	√		Facilitates exploration plans.
Permit under application	√	√	Subject to Northern Land Council approval.
Permit commitments		√	Granted permits will have remaining drilling and exploration expenditure commitments. If further work is not justified, the permits can be dropped with no penalty.
Land value (A$/acre)	√		Significant value exists.
Contingent Resources	√		Estimated for exploration permits, NT.
Prospective Resources	√		Estimated for exploration permits, NT and QLD.
Strategic			
Gas pipeline	√		The announcement of the Northern Route Gas Pipeline to be built will have positive ramifications on the company's valuation, however subjective at this stage.
Farmin offer by AEGP	√		Announced on 22nd Aug, executed on 11th Sep. 2015.

4.1 Methodology

The approach and methodology in regards to the petroleum exploration permits is as follows:

- Market approach: The 'comparable transactions' method was used, itself based on land valuations (A$/acre). Recent transactions undertaken between 2012 to 2015 were assessed.
- Cost approach: The 'multiple of exploration expenditure' method was used to value the exploration permits. Expenditure multipliers were applied to the exploration permits. Consideration was given to whether permits were granted, under application as well as the presence of Prospective and Contingent Resources. The valuation method 'multiple of exploration expenditure' (Cost Approach) and 'farmin agreement terms analysis' (Market Approach) uses expenditure multipliers. The basis upon which to use technical valuation multipliers follows the methodology of Lord (2014). This methodology considers ranges from 0.5 (loss of value) through to 3 being a significant increase in value based on increased prospectivity and Resource definition. We have taken multipliers as follows: 1 for permits under application (book value being the cost of the application), 1.5 for granted permits, 2.0 for permits where the geology has been defined and Prospective Resources identified and 2.5 for permits with defined Prospective and Contingent Resources demonstrating proved hydrocarbons based on DST's and pilot production tests.

4.2 Proposed AEGP Transaction

The proposed farmin agreement terms made by AEGP (**Figure 4-1**) and terms of the takeover bid by Westside Corporation Ltd were analysed to consider how they aligned with the values estimated. The values were not used in SRK's estimation.

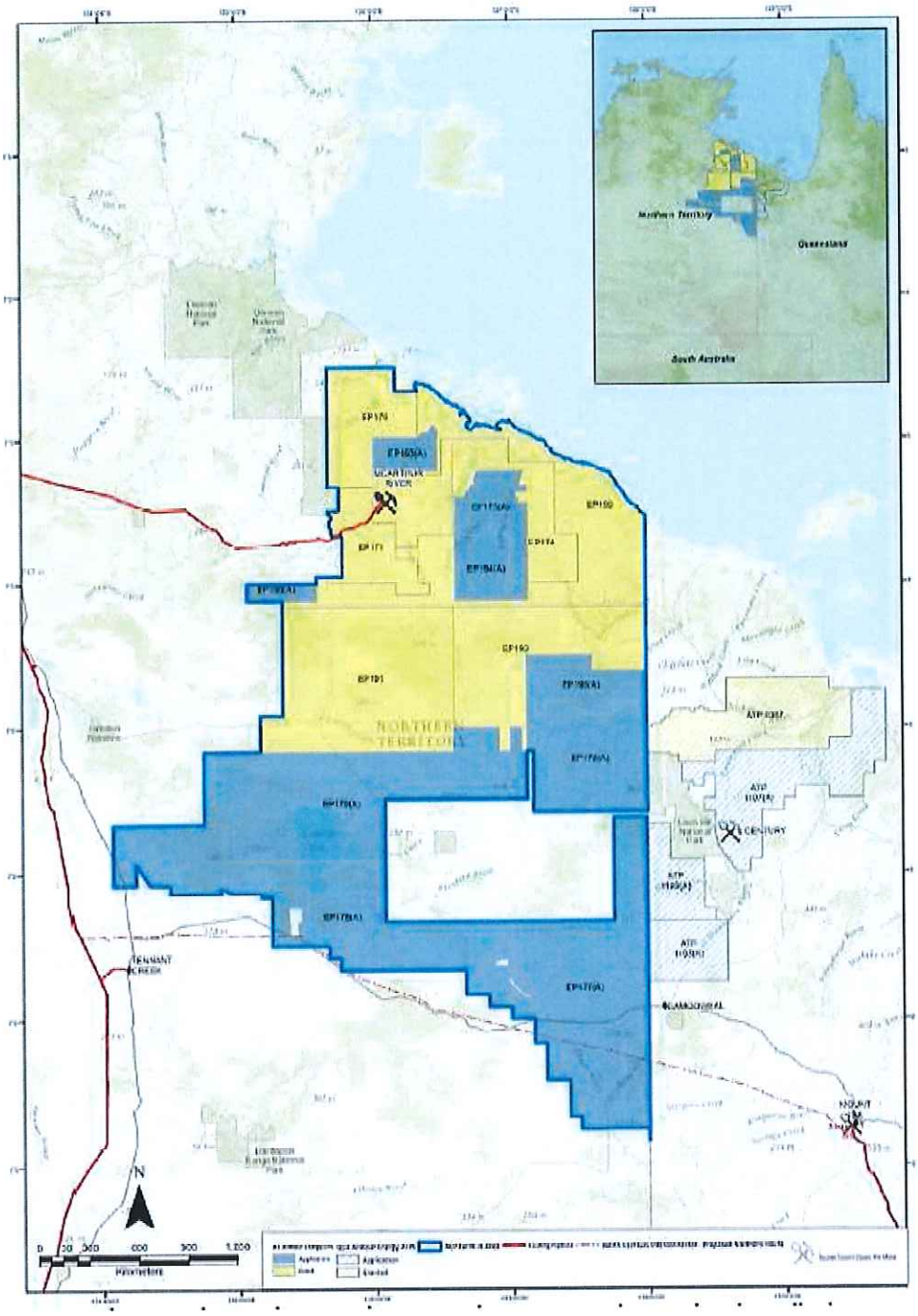

Figure 4-1: Location map – Petroleum exploration permits, Northern Territory (AEGP farmin area – outlined in blue; source – Armour Energy Ltd, 2015. ASX release 11th September 15:23)

4.2.1 Transaction Terms – AEGP Farmin

A farmin offer through a letter-of-intent was announced by AEP on the 20th August 2015. The final agreement was executed on the 11th September 2015 – the agreement is still subject to share-holder approval. The acreage relating to this farmin is illustrated in **Figure 4-1**.

The farmin terms in the AEGP executed agreement are tabulated (**Table 4-2**). The following granted permits will be transferred at a 75% ownership: EP171, EP174, EP176, EP190, EP191 and EP192. The granted exploration permits equate to a total acreage of 13.14 MM acres. The following permits under application will be transferred at a 75% ownership if granted: EP172(A), EP173(A), EP177(A), EP178(A) and EP179(A), EP193(A), EP194(A), EP195(A) and EP196(A). The permits under application equate to a total acreage of 16.12 MM acres. Granted exploration permits and those under application in total amount to 29.3 MM acres.

The upside and downside in the potential benefit to Armour and in terms of expenditure in the exploration permits are as follows:

- Upside case: The land value amounts to A$9.82/acre if the transaction goes ahead. If the transaction goes ahead Armour will receive a base value A$18.31 MM and A$183.10 MM will go into exploration. Armour will also receive A$4.23 MM if EP178 and EP179 are granted and A$9.86 MM if remaining exploration permits (EP172, EP173, EP179, EP193, EP195, EP196) are granted. The total to be received by Armour is A$32.40 MM and A$183.10 MM will go into exploration. In the upside case, AEGP will acquire 29,258,919 acres at A$9.82/acre.
- Low side case: The land value amounts to A$12.12/acre if the transaction goes ahead. If the transaction goes ahead Armour will receive A$18.31 MM. A lesser amount to the upside case of A$140.85 MM will go into exploration if EP177, EP178 and other pending exploration permits are not granted. The total to be received by Armour is A$18.31 MM and A$140.85 MM will go into exploration. In the low side case, AEGP will acquire 13,135,868 acres at A$12.12/acre.

In addition, the potential farminee (AEGP) will be acquiring shares and options if the executed agreement is ratified (Armour Energy Limited, 2015). It follows that the value marker may not be solely measured by the above land value as options if exercised, in addition to the shares, would give AEGP a 16% stake in Armour in addition to 75% interest in Northern Territory exploration permits.

Table 4-2: Farmin transaction details – Executed agreement between AEGP and Armour

Item	Cash (US$MM)	Cash (A$MM)	Work program (US$MM)	Work program (A$MM)
Assignment of Initial Farmout Interest	13	18.31	NA	NA
Upon assignment of pending permits (1 MM acres production licences (or) on grant & transfer of farmin interests in NT)	7	9.86	NA	NA
Performance bonus on grant & transfer of interest in EPs 177 & 178	3	4.23	NA	NA
Phase-1 expenditure funding (5 years for 75% working interest)	NA	NA	130	183.1
TOTAL	**23**	**32.4**	**130**	**183.1**

Note: The conversion rate of A$1.00 to US$0.71 is used here. Also, an additional option for funding development and production is provided; however, it is considered debt-funding and not part of the value for total cash-in-the-ground. (Armour Energy Limited, 2015). Shares and options are not included in **Table 4-2**.

Table 4-3 shows the maximum amount of acreage that AEGP could farmin to at the proposed maximum expenditure – this translates to a farmin land value of A$9.82/acre when normalised to 100% ownership. **Table 4-3** does not indicate the value of the exploration permits as these are currently held by Armour shareholders.

Table 4-3: Market comparison of land values (A$/acre) [1] – Conditions attached (Armour Energy Limited, 2015)

State	No	Farmin (FI)	Year	Acreage (acre)	Land value (A$/acre)	Cash value (A$MM)	Total value (A$MM)
NT	1	AEGP proposed farmin to Armour acreage, McArthur Basin (Acquire 75%) Proposed	2015	29,258,919	9.82[1]	32.4	215.50

4.3 SRK Valuation (Comparable Transactions method), 2012 to Present

Farmin transactions from the last three years show a relatively large spread in land values (**Table 4-4**). The farmin shown refers to transactions in different basins and were conducted at a time of growth in both the mining and petroleum sectors. It follows that any average land value may be heavily skewed if applied directly to today's market. A short review of listed farmin transactions follows.

- **Santos farmin to Tamboran Resources Pty Ltd acreage**: The farmin deal includes a total of A$71 MM of working interest to farmin to 6.18 MM acres in order to gain up to 75% equity. This equates to a total land value of A$15.32/acre and when normalised to the 3-month average oil price (June – August 2015 US$51.28) it equates to A$9.06/acre.
- **Petrochina farmin to New Standard Energy acreage**: The total transaction amount equates to A$110 MM to farmin to 11 MM acres in order to gain a 29% equity. This equates to a land value of A$34.48/acre and when normalised to the 3-month average oil price (June – August 2015 of US$51.28) it equates to A$16.91/acre.
- **Origin Energy Resources Ltd and Sasol Petroleum Australia Ltd farmin to Falcon Oil and Gas Ltd acreage**: The farmin deal includes A$20 MM as cash, A$64 MM as working interest for drilling five vertical wells, A$101 MM for drilling four horizontal wells and A$15 MM of royalties. The total amount equates to A$185 MM to farmin to 4.6 MM acres to gain a 70% equity. This is equivalent to a land value of A$57.45/acre, when normalised to the 3-month average oil price (June – August 2015 of US$51.28) it equates to A$30.57/acre.
- **Total farmin to Central Petroleum**: The farmin deal includes a total A$83.5 MM to farmin to 3,979,958 acres and gain up to 70% equity. This is equivalent to a land value of A$30.80/acre.

A review of transactions follows:

- Plotting the total dollars in-the-ground on-offer versus total acreage shows that AEGP's offer to farmin to Armour's acreage is on par with two other transactions (**Figure 4-2**).
- Origin Energy and Sasol paid significantly more for their acreage in the Beetaloo Basin.
- No in-depth assessment is made on differences in the exploration and geological value of respective acreage; however, one can note from the Santos farmin (**Table 4-4**) that this deal is located in the same basin as in the AEGP farmin.

Table 4-4: Market comparison of land values (A$/acre) – 2012 to 2015

State	No	Farmin (FI)	Year	Acreage (acre)	Land value at transaction (A$/acre)	Land Value norm Oil Price[2] 3 montl Sept 2015 (A$,
NT	1	Santos farmin to Tamboran Resources acreage, McArthur Basin (Acquire up to 75%)	2012	6,180,000	15.32	9.06
	2	Petrochina farmin to New Standard Energy acreage, Southern Canning Basin (Acquire 29%)	2013	11,000,000	34.48	16.91
	3[1]	Origin & Sasol farmin to Falcon Oil & Gas Ltd acreage, Beetaloo Basin (Acquire 35% each, total 70%)	2014	4,600,000	57.45	30.57
	4	Total to farmin to Central Petroleum acreage, South Georgina Basin (acquire up to 68%)	2012	3,979,958	30.80	NA

Note: the land values are calculated by referencing from total A$ offer by the farminee and base-lining t options are considered separate to in-the-ground value. [1] – Including the original Hess farmin, the full blc US$51.28 has been used for the 3-month average (Jun. to Aug. 2015), Crude Oil (petroleum), West Texas IMF.

Source for 1: Santos, 2012. ASX release 'Santos farmin to onshore McArthur Basin in NT', 12th December.

Source for 2: New Standard Energy, 2013. ASX release 'PetroChina settles Canning Basin interest', 11th Ju

Source for 3: Falcon Oil & Gas, 2014. ASX release 'Completion of Australian Beetaloo Basin farm-out', 21st

Source for 4: http://www.asx.com.au/asxpdf/20131128/pdf/42l6jr315ylhdx.pdf

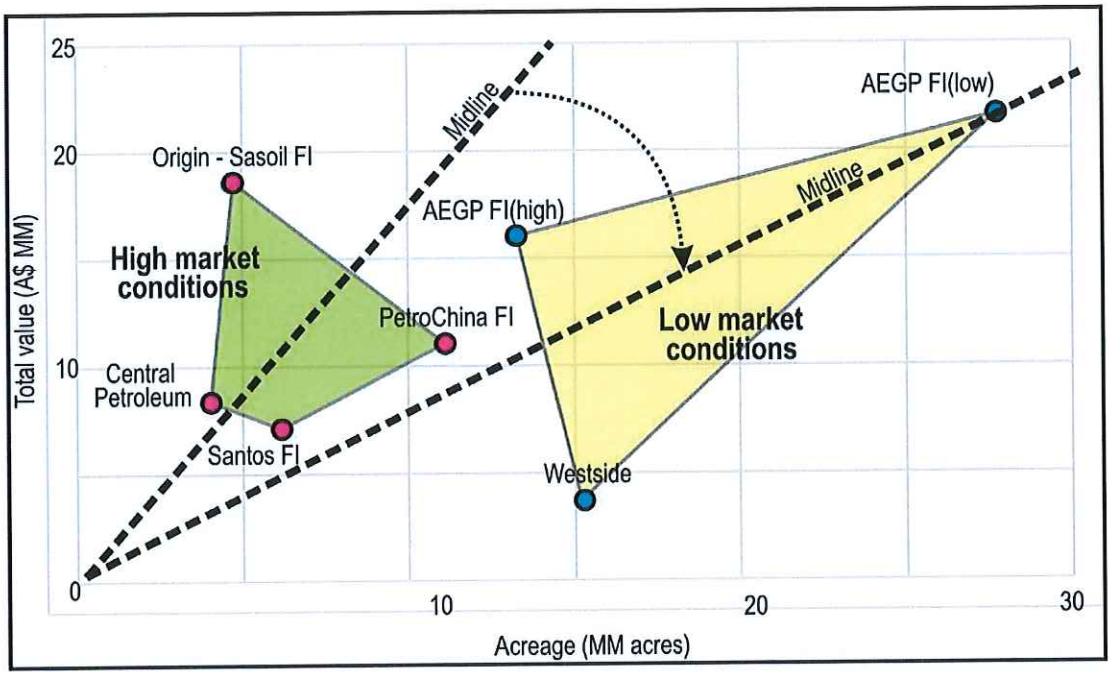

Figure 4-2: Transactions in the Northern Territory and Queensland (2012 to 2015) – actual and potential farmins. Acquisition of Armour shares by Westside Corporation also shown (FI – farmin, not normalised, see Table 4-4)

Three comparable transactions designated 1, 2 and 3 most closely align with the Armour NT acreage. Each was undertaken when the market condition was much stronger and oil prices significantly higher than today. **The range for these transactions is A$15.32 to A$57.45 per acre. When adjusted for the change in petroleum prices and A$ values the estimated range is A$9.06 to A$30.57 with a median value of A$16.91**. It is noted that transaction 3 is relatively high and was considered an outlier and not used as part of the final valuation range. Also, it must be noted that transaction 3 is located in the Beetaloo Basin whereas transaction 1 is located in the McArthur Basin where Armour tenements are located.

Another factor to consider relates to the lower market conditions and perceived timing to achieve exploration success combined with the likely value of discoveries in remote high cost locations however this can be offset by the very large acreage position of Armour.

4.4 Valuation Ranges Based on Comparable Transactions – granted Exploration Permits

Table 4-5 gives an asset valuation to the granted exploration permits. Those under application are considered to have minimal value as there are no comparable transactions available. Permits EP174, EP191 and EP192 have minimal exploration and no resource estimates assigned and therefore their value has been taken as nil for the Comparable Transaction assessment. **A joint venture for an application would only involve a split of the proposed work program.** It is important to note that SRK has made a minimal technical asset valuation of the land under application using the land-value method (**Table 4-4**). Further comments in relation to **Table 4-4** are needed. The Northern Territory permits valued were transacted at A$9.06, A$16.91 and A$30.57/acre normalised to the 3-month average oil price. The rate of A$30.57/acre was taken as an outlier. However, the high value of A$30.57/acre is considered to be informative when considering the range of comparable transactions.

Table 4-5 shows the valuations for a low, mid and high valuation to come to A$54.2 MM, A$101.2 MM and A$183.0 MM, respectively. Minimal exploration has been carried out in EP174, EP191 and EP192 so that their value has been taken as nil for the Comparable Transaction assessment.

Table 4-5: Technical asset valuation based on Comparable Transactions

State	Permit	Area (acres)	Interest (%)	Valuation (A$9.06/acre)	Valuation preferred (A$16.91)	Valuation (A$30.57/acre)
NT	EP171	853,276	100	$7,730,681	$14,428,897	$26,084,647
	EP174	1,067,374	100	na	na	Na
	EP176	1,978,667	100	$17,926,723	$33,459,259	$60,487,850
	EP190	3,153,221	100	$28,568,182	$53,320,967	$96,393,966
	EP191	3,747,062	100	na	na	Na
	EP192	2,336,268	100	na	na	Na
				A$54,225,586	**A$101,209,123**	**A$182,966,463**

4.5 Cost Approach (Multiples of Exploration Expenditure Method) – Exploration Permits, Northern Territory

4.5.1 Expenditure

Expenditures-to-date, as provided by Armour, are tabulated (**Table 4-6**) – note that these only provide a minimum expenditure in the permits. Exploration permits listed still have up to two years to go in their tenure; thereby, expenditures can be expected to increase as drilling commitments are normally carried out in the last few years of a tenure.

The remaining debt in relation to permit expenditure is also of consideration in the technical assets valuations. Exploration permits have remaining years owning: EP171 (<1), EP174 (>2), EP176 (<1), EP190 (>2), EP191 (>3) and EP192 (>3). Two of the permits (EP171, EP176) require extensions in less than a year, thereby, adding to the risk portfolio that the acquisition of these permits may have less value should the application-for-extension fail.

Table 4-6: Expenditures to-date in Armour's exploration permits – Northern Territory (Source for expenditure – Armour)

Permit	Expenditure (A$)					Acreage (km^2)	Acreage (acre)	Expenditure value (A$/acre)
	2012	2013	2014	2015	Total			
EP171	5,764,840	8,243,670	290,943	70,919	14,370,372	3,453.1	853,276	16.8
EP174	0	0	431,533	0	431,533	4,319.5	1,067,374	0.4
EP176	7,305,146	2,107,260	1,771,677	103,565	11,287,648	8,007.4	1,978,667	5.7
EP190	0	2,775,906	2,168,690	0	4,944,596	12,760.6	3,153,221	1.6
EP191	0	0	131,198	0	131,198	15,163.8	3,747,062	0.1
EP192	0	0	70,578	0	70,578	9,454.5	2,336,268	0.1

4.5.2 Valuation – Northern Territory

The second technical asset valuation method uses 'Multiples of Exploration Expenditure'. The basis upon which to use technical valuation multipliers follows the methodology of Lord (2014). We have taken multipliers as follows: one for permits under application, 1.5 for granted permits in good standing, 2 was applied for permits where Prospective Resources have been assessed and 2.5 for Contingent Resources – including Prospective Resources (**Table 4-7**). The total asset valuation for granted exploration permits, with the multipliers applied to account for the development stage of the permits on this basis is A$69,410,566.

In order to compare the valuation directly to the valuation as estimated by the 'Comparable Transactions', where exploration permits under application were removed and granted permits with minimal expenditure were assigned nil value, the total valuation would be A$67,450,255 (**Table 4-7**). For completeness of the comparison, including all permits would result in an evaluation of A$69,662,427 (**Table 4-7**).

Permits with Contingent Resources have very large Prospective Resources and these represent the opportunity to achieve Reserves with better understanding of sweet spots and production methodologies. As such these justify a significant promotion on the value expended by Armour.

Table 4-7: Technical asset valuations – Cost approach (A – under application, Source for expenditure – Armour)

Permit	Permit % held	Expenditure-to-date (A$)	Details of expenditure (dominant expenditures only)	Multiplier	Valuation (A$)
EP171	100	15,227,971	3 wells, 2D seismic, DST gas flow and well testing	2.5	38,069,927
EP174	100	924,127	Native title, tenure management	1.5	1,386,190
EP176	100	10,720,191	2 wells, exploration royalty	2	21,440,382
EP190	100	3,969,973	1 well, native title management	2	7,939,946
EP191	100	252,551	G&G, tenure management	1.5	378,826
EP192	100	130,196	G&G, corporate, brought forward	1.5	195,294
Total (NT)		**31,225,009**			
Total Valuation based on expenditures for granted permits					**69,410,566**

Permit	Permit % held	Expenditure-to-date (A$)	Details of expenditure (dominant expenditures only)	Multiplier	Valuation (A$)
Total Valuation based on expenditures for granted permits with Contingent and/or Prospective Resources					**67,450,255**
EP172(A)	100	26,020	Brought forward	1	26,020
EP173(A)	100	25,960	Brought forward	1	25,960
EP177(A)	100	26,176	Brought forward	1	26,176
EP178(A)	100	25,996	Brought forward	1	25,996
EP179(A)	100	25,996	Brought forward	1	25,996
EP193(A)	100	51,881	Brought forward	1	51,881
EP194(A)	100	23,117	Brought forward	1	23,117
EP195(A)	100	23,117	Brought forward	1	23,117
EP196(A)	100	23,598	Brought forward	1	23,598
Total (NT)		**251,861**			
Total Valuation based on expenditures for permits under application					**251,861**
Total Valuation based on expenditures of permits granted and under application					**69,662,427**

4.5.3 Discussion

The valuations based on Comparable Transactions amount to a low, mid and high valuation of A$54.2 MM, A$101.2 MM and A$183.0 MM, respectively.

- The high is considered an outlier and, therefore, the selected high of our valuation range is A$101.2 MM. However, while the valuation rate of A$30.57/acre is considered an outlier, it still portrays the potential upside of the exploration acreage. It must be noted that the high case (i.e. transaction 3 equivalent) is located in the Beetaloo Basin as opposed to the low that is located in the McArthur Basin where Armour tenements are located.
- The low end of our range, A$54.2 MM, is derived from the Santos Farmin into the McArthur Basin, and is considered more comparable than the upper range transactions.
- Application areas are not considered and have been given a value of nil.
- Granted exploration permits with no Prospective and/or Contingent resources (EP171, EP191, EP192) are also excluded as these are in an early phase of exploration and are considered to have a negligible contribution to the transaction values. These permits are given a nil value. The early phase of exploration is substantiated by the low expenditure to-date (A$1.3 MM).

The estimate based on Multiples of Exploration Expenditure comes to A$69.4 MM.

- The value A$69.4 MM is considered representative of the early stage of exploration for exploration permits EP174, EP191 and EP192 while permits EP171, EP176, EP190 are in a more advanced stage. SRK considers the valuation to be a mid as overall the value represents a weighted average of expenditure over all granted permits.
- Minimal expenditure is assigned to the exploration permits under application, and these have not been included in the multiples of expenditure assessment of the mid value.

On balance SRK would argue the following:

- The valuation range is considered from comparable market transactions, ranging at A$54.2 MM to A$101.2 MM,
- The preferred valuation is considered to be A$69.4 MM, sits within the range defined from Comparable transactions, and is derived from Multiples of Exploration Expenditure.

5 Conclusion

SRK summarises the assets valuation of Armour in **Table 5-1.**

SRK's technical valuation is based on the best estimates derived from relevant Comparable Transactions and multiples of exploration expenditure. The petroleum valuation low and high are based on comparable transactions, however the preferred value of A$69.4 MM is derived from expenditure multiples which is considered representative of these early stage exploration assets.

Table 5-1: Technical assets valuation – Total for petroleum resources

Resources	Low (A$ MM)	Preferred (A$ MM)	High (A$ MM)
Petroleum	54.2	69.4	101.2

SRK has considered this valuation in terms of technical value to be within the range of A$54.2 – A$101.2 MM. This valuation is based on our evaluation of the Armour assets.

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Appendix A: Category Definitions of Petroleum Reserves and Resources

For further details on the definitions and guidelines, please see the original document (SPE, 2007).

The following figure (from the World Petroleum Council) presents 1P, 2P and 3P category definitions. Furthermore, it provides guidelines designed to promote consistency in resource assessments. The following summarizes the definitions for each Reserves category in terms of both the deterministic incremental approach and scenario approach and also provides the probability criteria if probabilistic methods are applied.

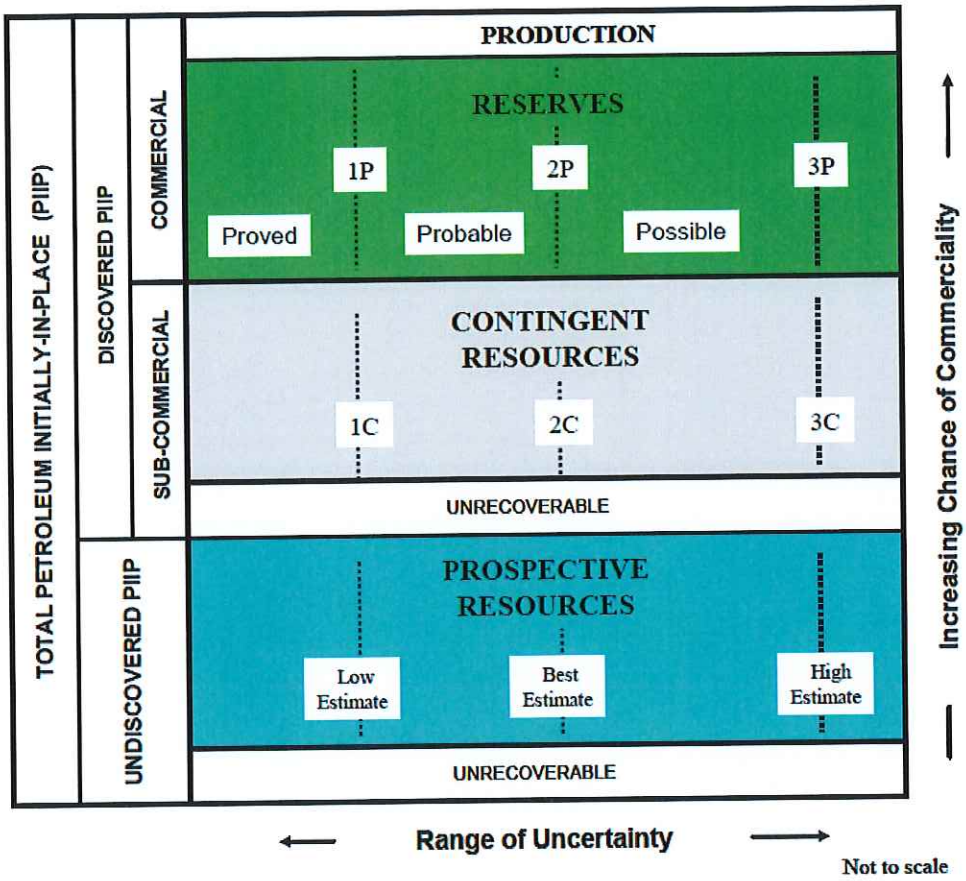

Figure A-1: Resources Classification Framework

Proved Reserves are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this

context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

The "Range of Uncertainty" reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the "Chance of Commerciality", that is, the chance that the project that will be developed and reach commercial producing status.

The following definitions apply to the major subdivisions within the resources classification:

TOTAL PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production plus those estimated quantities in accumulations yet to be discovered (equivalent to "total resources").

DISCOVERED PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.

PRODUCTION is the cumulative quantity of petroleum that has been recovered at a given date. While all recoverable resources are estimated and production is measured in terms of the sales product specifications, raw production (sales plus non-sales) quantities are also measured and required to support engineering analyses based on reservoir voidage.

Multiple development projects may be applied to each known accumulation, and each project will recover an estimated portion of the initially-in-place quantities. The projects shall be subdivided into Commercial and Sub-Commercial, with the estimated recoverable quantities being classified as Reserves and Contingent Resources respectively, as defined below.

RESERVES are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria's: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

CONTINGENT RESOURCES are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub classified based on project maturity and/or characterized by their economic status.

UNDISCOVERED PETROLEUM INITIALLY-IN-PLACE is that quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.

PROSPECTIVE RESOURCES are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

UNRECOVERABLE is that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur, the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

ESTIMATED ULTIMATE RECOVERY (EUR) is not a resources category, but a term that may be applied to any accumulation or group of accumulations (discovered or undiscovered) to define those quantities of petroleum estimated, as of a given date, to be potentially recoverable under defined technical and commercial conditions plus those quantities already produced (total of recoverable resources).

In specialized areas, such as basin potential studies, where alternative terminology has been used, the total resources may be referred to as Total Resource Base or Hydrocarbon Endowment. Total recoverable or EUR may be termed Basin Potential. The sum of Reserves, Contingent Resources and Prospective Resources may be referred to as "remaining recoverable resources". When such terms are used, it is important that each classification component of the summation also be provided. Moreover, these quantities should not be aggregated without due consideration of the varying degrees of technical and commercial risk involved with their classification.

Project-Based Resources Evaluations

The resources evaluation process consists of identifying a recovery project, or projects, associated with a petroleum accumulation(s), estimating the quantities of Petroleum Initially-in-Place, estimating that portion of those in-place quantities that can be recovered by each project, and classifying the project(s) based on its maturity status or chance of commerciality.

This concept of a project-based classification system is further clarified by examining the primary data sources contributing to an evaluation of net recoverable resources (see **Figure A-2**) that may be described as follows:

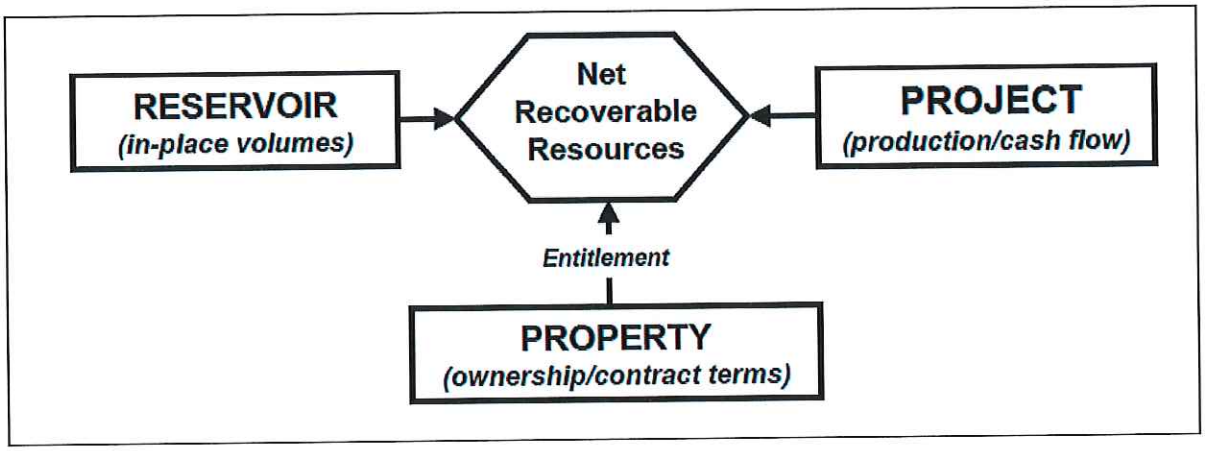

Figure A-2: Resources Evaluation Data Sources

Resources Classification

The basic classification requires establishment of criteria for a petroleum discovery and thereafter the distinction between commercial and sub-commercial projects in known accumulations (and hence between Reserves and Contingent Resources).

Determination of Discovery Status

A discovery is one petroleum accumulation, or several petroleum accumulations collectively, for which one or several exploratory wells have established through testing, sampling, and/or logging the existence of a significant quantity of potentially moveable hydrocarbons.

In this context, "significant" implies that there is evidence of a sufficient quantity of petroleum to justify estimating the in-place volume demonstrated by the well(s) and for evaluating the potential for economic recovery. Estimated recoverable quantities within such a discovered (known) accumulation(s) shall initially be classified as Contingent Resources pending definition of projects with sufficient chance of commercial development to reclassify all, or a portion, as Reserves.

Where in-place hydrocarbons are identified but are not considered currently recoverable, such quantities may be classified as Discovered Unrecoverable, if considered appropriate for resource management purposes, a portion of these quantities may become recoverable resources in the future as commercial circumstances change or technological developments occur.

Determination of Commerciality

Discovered recoverable volumes (Contingent Resources) may be considered commercially producible, and thus Reserves, if the entity claiming commerciality has demonstrated firm intention to proceed with development and such intention is based upon all of the following criteria:

Evidence to support a reasonable timetable for development.

- A reasonable assessment of the future economics of such development projects meeting defined investment and operating criteria.
- A reasonable expectation that there will be a market for all or at least the expected sales quantities of production required to justify development.
- Evidence that the necessary production and transportation facilities are available or can be made available.
- Evidence that legal, contractual, environmental and other social and economic concerns will allow for the actual implementation of the recovery project being evaluated.

To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.

To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

Project Status and Commercial Risk

Evaluators have the option to establish a more detailed resources classification reporting system that can also provide the basis for portfolio management by subdividing the chance of commerciality axis according to project maturity. Such sub-classes may be characterized by standard project maturity level descriptions (qualitative) and/or by their associated chance of reaching producing status (quantitative).

As a project moves to a higher level of maturity, there will be an increasing chance that the accumulation will be commercially developed. For Contingent and Prospective Resources, this can further be expressed as a quantitative chance estimate that incorporates two key underlying risk components:

The chance that the potential accumulation will result in the discovery of petroleum. This is referred to as the "chance of discovery".

Once discovered, the chance that the accumulation will be commercially developed is referred to as the "chance of development".

Thus, for an undiscovered accumulation, the "chance of commerciality" is the product of these two risk components. For a discovered accumulation where the "chance of discovery" is 100%, the "chance of commerciality" becomes equivalent to the "chance of development".

Project Maturity Sub-Classes

As illustrated in **Figure A-3** development projects (and their associated recoverable quantities) may be sub-classified according to project maturity levels and the associated actions (business decisions) required to move a project toward commercial production.

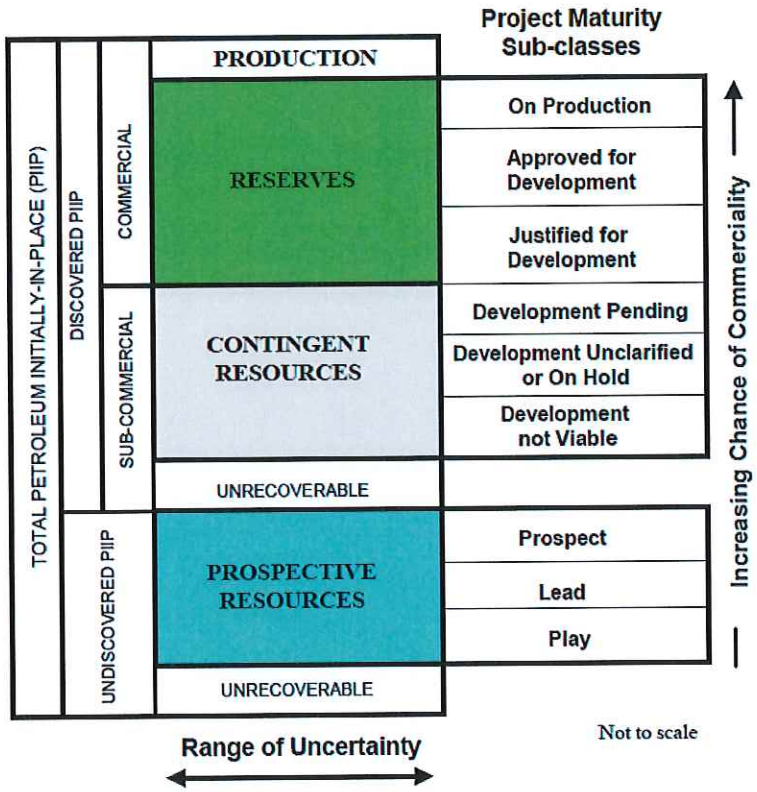

Figure A-3: Project Maturity Sub-Classes

Project Maturity terminology and definitions have been modified from the example provided in the 2001 Supplemental Guidelines, Chapter 2. Detailed definitions and guidelines for each Project maturity sub-class are provided in Table I. This approach supports managing portfolios of opportunities at various stages of exploration and development and may be supplemented by associated quantitative estimates of chance of commerciality. The boundaries between different levels of project maturity may be referred to as "decision gates".

Decisions within the Reserves class are based on those actions that progress a project through final approvals to implementation and initiation of production and product sales. For Contingent Resources, supporting analysis should focus on gathering data and performing analyses to clarify and then mitigate those key conditions, or contingencies that prevent commercial development.

For Prospective Resources, these potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under appropriate development projects. The decision at each phase is to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity where a decision can be made to proceed with exploration drilling.

Evaluators may adopt alternative sub-classes and project maturity modifiers, but the concept of increasing chance of commerciality should be a key enabler in applying the overall classification system and supporting portfolio management.

Reserves Status

Once projects satisfy commercial risk criteria, the associated quantities are classified as Reserves. These quantities may be allocated to the following subdivisions based on the funding and operational status of wells and associated facilities within the reservoir development plan (detailed definitions and guidelines are provided in **Figure A-3**:

- Developed Reserves are expected quantities to be recovered from existing wells and facilities
- Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate
- Developed Non-Producing Reserves include shut-in and behind-pipe Reserves
- Undeveloped Reserves are quantities expected to be recovered through future investments.

Where Reserves remain undeveloped beyond a reasonable timeframe, or have remained undeveloped due to repeated postponements, evaluations should be critically reviewed to document reasons for the delay in initiating development and justify retaining these quantities within the Reserves class. While there are specific circumstances where a longer delay (see Determination of Commerciality, section 2.1.2) is justified, a reasonable time frame is generally considered to be less than 5 years.

Development and production status are of significant importance for project management. While Reserves Status has traditionally only been applied to Prove Reserves, the same concept of Developed and Undeveloped Status based on the funding and operational status of wells and producing facilities within the development project are applicable throughout the full range of Reserves uncertainty categories (Proved, Probable and Possible).

Quantities may be subdivided by Reserves Status independent of sub-classification by Project Maturity. If applied in combination, Developed and/or Undeveloped Reserves quantities may be identified separately within each Reserves sub-class (On Production, Approved for Development, and Justified for Development).

Economic Status

Projects may be further characterized by their Economic Status. All projects classified as Reserves must be economic under defined conditions.

Based on assumptions regarding future conditions and their impact on ultimate economic viability, projects currently classified as Contingent Resources may be broadly divided into two groups:

Marginal Contingent Resources are those quantities associated with technically feasible projects that are either currently economic or projected to be economic under reasonably forecasted improvements in commercial conditions but are not committed for development because of one or more contingencies.

Sub-Marginal Contingent Resources are those quantities associated with discoveries for which analysis indicates that technically feasible development projects would not be economic and/or other contingencies would not be satisfied under current or reasonably forecasted improvements in commercial conditions. These projects nonetheless should be retained in the inventory of discovered resources pending unforeseen major changes in commercial conditions.

Where evaluations are incomplete such that it is premature to clearly define ultimate chance of commerciality, it is acceptable to note that project economic status is "undetermined." Additional economic status modifiers may be applied to further characterize recoverable quantities; for example, non-sales (lease fuel, flare, and losses) may be separately identified and documented in addition to sales quantities for both production and recoverable resource estimates (see also Reference Point, section 3.2.1). Those discovered in-place volumes for which a feasible development project cannot be defined using current or reasonably forecast improvements in, technology are classified as Unrecoverable.

Economic Status may be identified independently of, or applied in combination with, Project Maturity sub-classification to more completely describe the project and its associated resources.

Appendix B: Exploration Permits Assessed

Table A-1: Armour Energy Limited's (Armour) petroleum exploration permits – Subject of current preferred tenderer)

Permit	State	Resource	Grant date	Application date	Expiry date	First term of tenure (years)	Area (km^2)	Area (acres)	Interest (%)
EP171	NT	petroleum	29/06/2011	NA	28/06/2016	5	3,453	853,276	100
EP172(A)		petroleum	NA	19/12/2009	NA	5	7,091	1,752,314	NA
EP173(A)		petroleum	NA	19/12/2009	NA	5	2,903	717,455	NA
EP174		petroleum	11/12/2012	NA	10/12/2017	5	4,320	1,067,374	100
EP176		petroleum	29/06/2011	NA	28/06/2016	5	8,007	1,978,667	100
EPA177(A)		petroleum	NA	6/04/2010	NA	5	15,899	3,928,796	NA
EPA178(A)		petroleum	NA	8/04/2010	NA	5	15,610	3,857,208	NA
EPA179(A)		petroleum	NA	8/04/2010	NA	5	16,034	3,962,027	NA
EP190		petroleum	11/12/2012	NA	10/12/2017	5	12,761	3,153,221	100
EP191		petroleum	03/10/2013	NA	02/10/2018	5	15,164	3,747,062	100
EP192		petroleum	03/10/2013	NA	02/10/2018	5	9,455	2,336,268	100
EP193(A)		petroleum	NA	13/08/2010	NA	5	1,348	333,199	NA
EP194(A)		petroleum	NA	13/08/2010	NA	5	2,331	575,904	NA
EP195(A)		petroleum	NA	13/08/2010	NA	5	3,296	814,478	NA
EP196(A)		petroleum	NA	13/08/2010	NA	5	735	181,670	NA