ARMOUR ENERGY LIMITED
and controlled entities
ABN 60 141 198 414

Annual financial report
for the year ended 30 June 2016

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armour energy

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CHAIRMAN'S REPORT

Dear Shareholder

It has been a tumultuous year for the oil & gas industry in general and the Company in particular, with the underlying volatility of the crude oil price derailing the plans and projects of many industry participants. I am pleased however to report that, despite these headwinds, Armour Energy remains on track to complete its transformation from a greenfields explorer to an exploration & production company.

During the period, Armour acquired the “mothballed” Kincora Project on the Roma Shelf in the Surat Basin from Australian energy major, Origin Energy. The assets, including pipeline infrastructure, are strategically located and connected to the Wallumbilla gas hub, and include a valuable gas storage facility. Armour estimates that the “hard assets” have a replacement value of approximately $250 million. The acquisition of these assets offers Armour near-term production and cash flow opportunities through the production of gas, oil and liquids, representing a potentially key source of funding for Armour Energy’s overall growth strategy.

The move to become an integrated explorer / producer has come at an important time for the Company. As reported by the ABC news as recently as 19 September, and as we have been predicting for the past two years, the east-coast Australian market for gas continues to head towards a 2016-17 supply shortage. The ABC reported that gas prices on the east coast have already risen from $3 to $4 per gigajoule, to $7 to $10 per gigajoule in the last two years. The recent decision by the Victorian State Government to effectively extend the moratorium against further gas exploration may only serve to heighten future price rises. Furthermore, as gas continues to be the world’s most compressible, transportable and politically and environmentally acceptable form of fossil energy, Armour Energy is also well placed to participate in future export market opportunities.

Armour has recently shipped its first load of oil produced from the Emu Apple Oilfield within the Kincora Project, and has been working hard on a two-phase plan to restart gas and condensate production at Kincora following a recent four-fold increase in the contingent gas resources within certain fields in the project area. The details of these developments are covered by the Company’s recent suite of ASX releases.

Armour continues to hold an extensive and provincial tenement position, over several basins in the Northern Territory and Northern Queensland. The August 2016 settlement reached with American Energy Partners affiliate AEGP Australia Pty Ltd, effectively returned to the Company 100% ownership over its Northern Territory acreage, together with over 40 million Armour shares acquired by AEGP Australia in the previous 12 months. These shares have now been sold to third parties, realising Armour approximately $3 million in proceeds. Farm-in opportunities for the Northern Queensland and Northern Territory are being currently investigated.

The year ahead will see the Company focus its efforts on the restart of production at Kincora, and its efforts towards the realisation of the tremendous remaining exploration and production upside we sincerely believe is waiting to be commercialised. In this regard we continue to identify opportunities for target wells to be drilled, existing wells to be perforated and engineering evaluations to be conducted on existing known gas accumulations. In this respect, Armour has already identified approximately 400 instances of gas accumulations that were drilled through but never flow tested.

I would like to take this opportunity to thank my fellow Board members and the Company’s small but dedicated executive team for another year of hard work, and also the Company’s shareholders for their continued support and patience during this transformative period in the Company’s history. I repeat my belief that Armour Energy is poised to realise its plans to become a progressive Australian gas exploration and production company.

Yours sincerely

Nicholas Mather
Executive Chairman

Review of operations and activities

Company Strategy

Armour Energy (Armour) is focused on the discovery and development of world class gas and associated liquids resources in an extensive hydrocarbon province in northern Australia which was first discovered in the early 1990s. This region has only recently had its shale potential identified by Armour. Today's business environment with strong domestic and global demand for gas, domestic gas prices trending towards LNG netback, combined with proven shale extraction technologies and world class personnel, provides the Company with an extraordinary opportunity to define and ultimately develop a major new gas province. In the near term, Armour will focus on bringing its recently acquired oil and gas fields on the Roma Shelf, Queensland into production.

Armour's permit areas in northern Australia, are characterised by low population densities, cooperative stakeholders and a natural environment suited to the exploration and development of a major hydrocarbon province. The Company is focusing on the exploration of the McArthur, South Nicholson and Georgina Basins in the Northern Territory and Queensland, and in the onshore Gippsland Basin in Victoria, for gas and associated liquids.

Armour will progress exploration of its 133,000 square kilometres (33 million acres) tenement area while maintaining a prudent approach to capital management, low-cost, high value work programs and partnering on appropriate terms. Exploration will focus on staged de-risking of large unconventional gas and liquids plays while pursuing early cash flow opportunities.

During the year, the Company acquired petroleum (oil and gas) resources, tenures, production and transportation infrastructure assets which will enable the Company to become a significant producer of gas, LPG, condensate and oil on the Roma Shelf, Surat Basin, in Queensland. The production facilities include field gas compression, extensive gathering systems, the Kincora gas processing plant, and a dedicated pipeline to the Roma to Brisbane Pipeline at Wallumbilla. The assets also include the Newstead (underground) gas storage facility and other potential gas storage facilities. Furthermore, the assets include a number of oil fields with associated facilities.

The experienced Board of the Group includes three past Director's of Arrow Energy. The Group's technical and commercial team includes a range of industry experts and seasoned professionals who have been selected to help transform Armour into a significant gas exploration and development company.

Highlights

- Queensland, Surat Basin:
  - Acquisition of Surat Basin assets from Origin Energy ("Kincora Project"), which will transform Armour from a pure exploration company to an exploration and production company;
  - Oil Production commences at Kincora at an initial rate of 50 barrels per day (bpd);
  - 510% increase in 2C Contingent Resources in Armour's Myall Creek, Parknook, Namarah and Warroon fields;
  - Start Up, well stimulation, and drilling program planned to start and increase production from the Kincora project.

- Northern Australia
  - Total Northern Australia Best Estimate Prospective Gas Resources increased from 34 Tscf to 57 Tscf, an increase of 66%;
  - Jemena selected by the Northern Territory Government to construct and operate the NEGI. The Jemena pipeline route traverses Armour's (yet to be granted) tenements.

- Ripple Resources:
  - Regional modelling of prospective metal-bearing strata within the Tawallah Group;
  - Interpretation of open-file and Armour Energy acquired geophysical survey data;
  - Review of previous exploration work and relevant literature to Ripple's exploration areas;
  - Mapping and interpretation of previous steam sediment and soil geochemistry work;
  - Phase 1 and 2 of the CSIRO study (now complete) of the mineralisation potential of the Wollogorang and McDermott Formations of the Tawallah Group.

Review of operations and activities (continued)

- Victoria (JV with Lakes Oil):
  - Exploration and development on hold, following the Victorian Government's ban on onshore unconventional gas and extension of the current moratorium relating to conventional onshore gas.

- Corporate:
  - Armour and DGR Global Limited execute agreements for a bridging loan facility;
  - Attempt by WestSide Corporation at an unsolicited takeover bid of Armour;
  - Northern Territory tenements Farm-out to AEGP Australia;
  - Uganda - Armour awarded preferred tenderer status under the First Round of Licensing by the Ugandan Government for a petroleum tenement in the Albertine Rift;

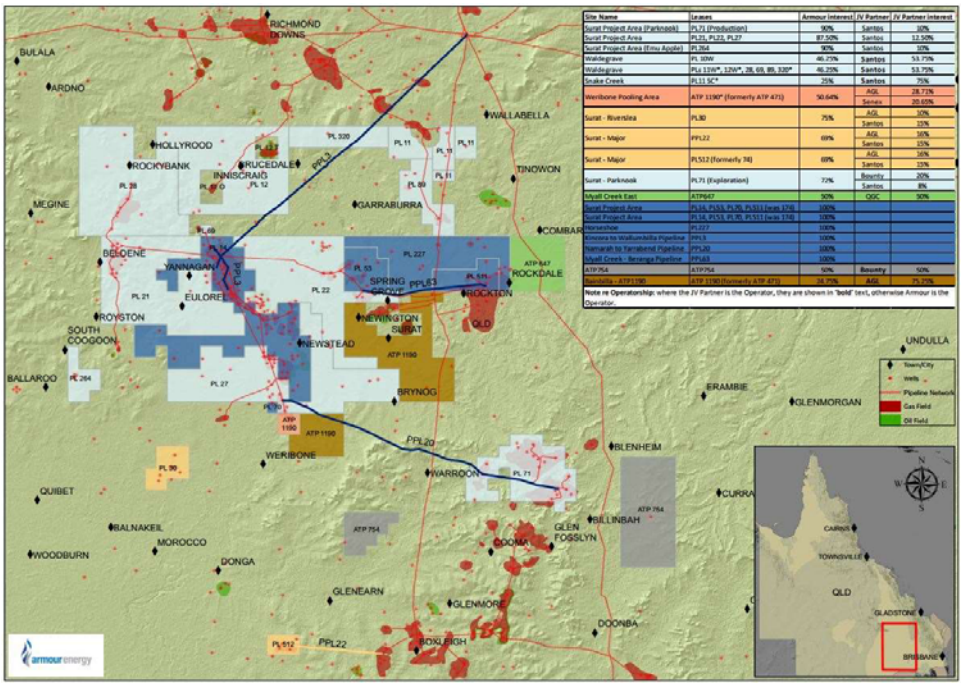
Surat Basin

Acquisition of Surat Basin assets from Origin Energy

As announced on 2 September 2015, Armour executed Sale and Purchase Agreements (Agreements) to acquire the oil and gas interests of Origin Energy (Origin) on the Roma Shelf in the Surat Basin, Queensland for AUD $13m as an initial payment of $10m, then $3m (in $1m annual tranches over three years) from the first anniversary of gas sales.

The package of assets acquired includes 19 Production Licences, 4 Authorities to Prospect, 4 Petroleum Pipeline Licences, the Kincora gas and LPG plant and associated pipeline infrastructure, and the Newstead gas storage facility. Armour estimates the replacement value of the infrastructure at over $250m.

Armour is now on title for all tenements (18 PLs, 3 ATPs, 4 PPLs) save for ATP647. Settlement of ATP647 occurred on 31 August 2016, with QGC appointed as the operator. Armour is now progressing through the formal title transfer process with the Queensland Government. Figure 1 below shows an overview of Armour's tenements as part of the Kincora project which includes the 100% owned pipeline from the Kincora gas processing plant to the east coast's major gas hub at Wallumbilla.



Site Name	Leases	Armour Interest	JV Partner	JV Partner Interest
Surat Project Area (Parkrose)	PL71 (Production)	90%	Santos	10%
Surat Project Area	PL21, PL23, PL27	87.50%	Santos	12.50%
Surat Project Area (Emu Apple)	PL264	90%	Santos	10%
Waldegrave	PL 10W	46.25%	Santos	53.75%
Waldegrave	PLs 11W*, 12W*, 28, 69, 89, 320*	46.25%	Santos	53.75%
Drake Creek	PL11 SC*	25%	Santos	75%
Weribone Pooling Area	ATP 1190* (formerly ATP 471)	50.64%	AGL	28.71%
			Sunex	20.65%
Surat - Riverslea	PL30	75%	AGL	10%
			Santos	15%
Surat - Major	PPL22	69%	AGL	16%
			Santos	15%
Surat - Major	PL512 (formerly 74)	69%	AGL	16%
			Santos	15%
Surat - Parkrose	PL71 (Exploration)	72%	Bounty	20%
			Santos	8%
Myall Creek East	ATP647	50%	QGC	50%
Surat Project Area	PL14, PL53, PL70, PL511 (was 174)	100%		
Surat Project Area	PL14, PL53, PL70, PL511 (was 174)	100%		
Horseshoe	PL227	100%		
Kincora to Wallumbilla Pipeline	PPL3	100%		
Yamarah to Tarraboreg Pipeline	PPL20	100%		
Myall Creek - Beranga Pipeline	PPL83	100%		
ATP 754	ATP 754	50%	Bounty	50%
Weribone ATP 1190	ATP 1190 (formerly ATP 471)	3.7%	AEC	96.2%

Note re Operatorship: where the JV Partner is the Operator, they are shown in 'bold' text, otherwise Armour is the Operator.

Figure 1: overview of Armour's tenements as part of the Kincora project

Review of operations and activities (continued)

Oil Production commences at Kincora

On 22 August 2016, Armour announced that oil production from the Emu Apple field has now commenced. Restart work at Emu Apple (Figures 2 and 3) which forms part of the Group's recently acquired Kincora project, was completed safely and well below budget.

Emu Apple-1 well is currently producing at a rate of approximately 43 bpd.

The Emu Apple Field covers an area of 1.3 km2. As first reported by Armour in its 7 October 2015 Target's Statement, based on an independent report received by Risc Operations Pty Ltd on 30 September 2015, the Emu Apple-1 well is estimated to contain approximately 100,000 bbl of remaining recoverable oil in a 4 way dip closed structure in the Jurassic aged Boxvale Sandstone at a depth of 1400 metres.

The Kincora project covers 6 historic oil fields that have historically produced 2.9 mmbbls oil. Armour has identified 5 wells with untested logged oil pay behind casing which was never tested, and further untested appraisal areas in the existing fields.

Armour aims to re-enter and test the best of these opportunities as part of its campaign to bring the Kincora project up to full development status.

Figure 2: Emu Apple-1 well with storage tanks in the background

Review of operations and activities (continued)

Figure 3: Emu Apple facility including offloading area

510% increase in 2C Contingent Resources in Armour's Myall Creek, Parknook, Namarah and Warroon fields

On 19 July 2016, the Company announced the results of an independent resources review of certain of its licence areas within its Kincora Project in the Surat Basin, Queensland. The 2C contingent resources (net to Armour) in the Myall Creek, Parknook, Namarah and Warroon Fields) have increased from 15 PJs to 92 PJs. The overall total 2C contingent gas resource (net to Armour) of the broader Kincora project area is now 105 PJs.

Armour has a 100% working interest in the Myall Creek petroleum licenses PL511 and PL227, which cover an area of 78 km2, and a 90% working interest in the Parknook, Namarah and Warroon Fields (petroleum license PL71, covering an area of 134 km2) (Figure 4). The recoverable resource estimates have been classified as contingent resources and Table 2 indicates Armour's net share of remaining recoverable products.

2C contingent resources will be reclassified to 2P reserves upon demonstrating economic viability following the restart of the Kincora Gas Plant. Since acquiring these assets the Armour team has been working on restart plans and is currently intending to achieve first gas production by the end of 2016. This will involve gas from the Newstead storage facility which should require minimal processings to meet sales gas specification as it was already processed prior to injection into storage.

The balance of the restart will involve recommissioning of the LPG system at the Kincora Gas Plant and this is expected to be completed during quarter 1 2017, which is when Armour intends to bring the Myall Creek and other fields back into production.

Category	Total Net Resources [1]			
	Gas (BCF)	Gas (PJ)	LPG (kTonne)	Condensate (kbbl)
Total Proved (1C)	26	27	56	270
Total Proved + Probable (2C)	87	92	190	913
Total Proved + Probable + Possible (3C)	222	234	483	2,326

Table 1 -Total Net Contingent Gas Resource Estimation- Myall Creek, Parknook, Namarah and Warroon Fields

Review of operations and activities (continued)

Table 1 Notes:
1. Contingent Resources are classified according to SPE-PRMS (Society of Petroleum Engineers - Petroleum Resource Management System).
2. Contingent Resources are stated on a risked net basis with historical production removed.
3. Contingent Resources stated are inclusive of previous estimates reported by Armour.
4. Contingent resources exclude plant operating fuel used during operations estimated at 7%
5. Contingent Resources are stated exclusive of minor overriding royalty and net profit interest.
6. BCF = billion cubic feet, LPG = liquefied petroleum gas, PJ = petajoules, kbbl = thousand barrels, kTonne = thousand tonnes; Conversion 1.055 PJ/BCF.

The 2C contingent resources (net) from Table 1 above are split as follows:

		Myall Creek 2C (net) PL511 and PL227	Parknook, Namarah and Warroon 2C (net) PL71	Total 2C (net)
Gas	PJ	60	32	92
LPG	kTonnes	125	65	190
Condensate	Kbbls	600	313	913

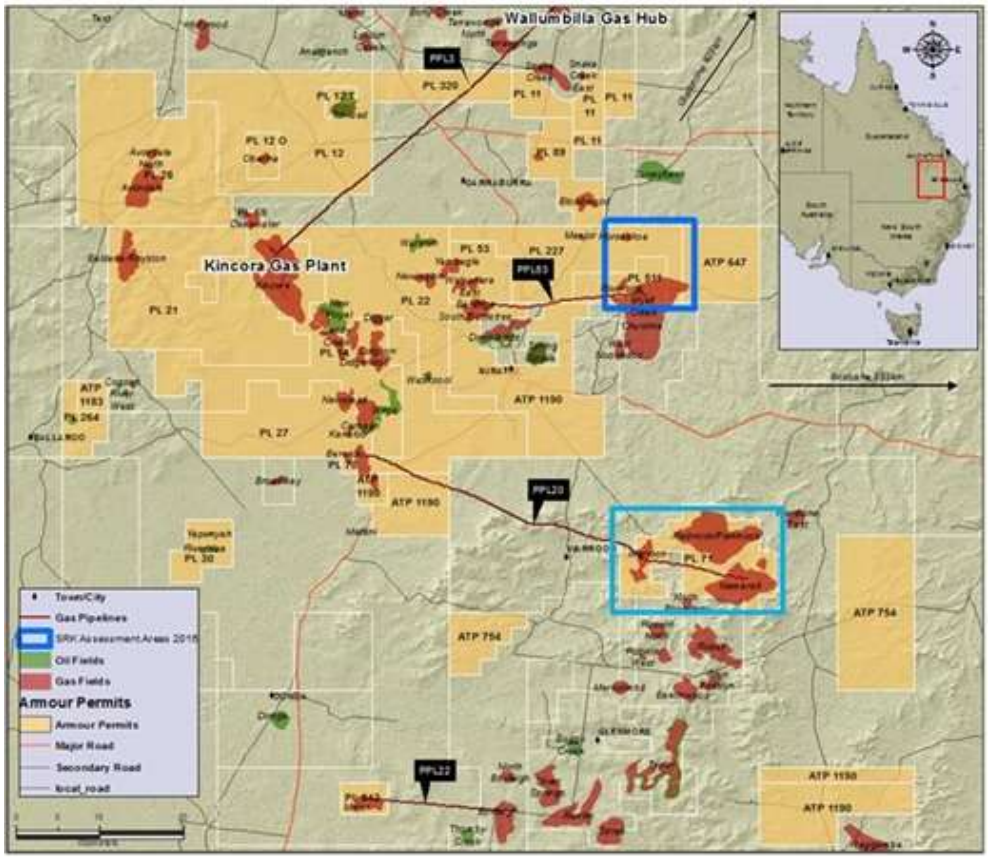


Figure 4: Upper Tinowon & Wallabella Sandstone Contingent Gas Resource Area, Armour Energy operated 100% WI PL 511 & PL 227; Showgrounds & Rewan Contingent Gas Resource Area, Armour Energy operated 90% WI PL 71

Review of operations and activities (continued)

Start Up, well stimulation, and drilling program planned to start and increase production from the Kincora project

Since the announcement on 21 July 2016, Armour has continued to look at optimisations regarding the restart of gas production in order to ramp up as rapidly as practically possible to be operating the Kincora Plant at capacity. As a result, we have consolidated the second and third phases into one phase. Our 2 phase plan is as follows.

- Phase 1 is the commencement of gas production ramping up to 9 TJ per day (3.3 PJs per annum) with production initially from the Newstead storage facility and then various wells across the fields that were last in operation. First gas production targeted to be achieved by mid Q1 2017, and the balance of the restart (including associated liquids) to be completed by the end of Q2 2017. At these production rates Armour expects that gas and liquids revenues will meet or exceed the operating costs of the Kincora Project.

- Phase 2 will involve drilling of new wells plus workovers and stimulations to achieve ramp up to 20 TJ per day over a period of 12 to 18 months from first gas production. This production rate is 80% of the Kincora Gas Plant name plate capacity and subject to operational performance further production ramp up will be explored to achieve 100% capacity subject to having confidence in plant reliability. Associated liquids production historically averaged 9942 barrels of condensate per PJ of gas, and 2066 tonnes of LPG per PJ of gas, and at 20 TJ per day liquids production are expected to achieve 198 barrels of condensate and 41 tonnes of LPG per day. These condensate and LPG figures are based on the information contained in the Company's ASX release of 19 July 2016.

Table 2 below sets out the targeted objectives and the tenement details for the Phase 2 program. Armour is currently negotiating funding for these programs.

The above mentioned production rates, as well as the flow rates in Table 1, are based on historical (2012) well performance from nearby wells and detailed sub-surface analysis work undertaken by Armour and its consultants over the past 9 months. Armour is currently discussing gas sales arrangements with a number of third parties and is targeting summer peak periods in which to commence gas sales, assuming negotiations are successful.

First stimulation targets				
Tenement	*Well*	*Operation*	*Details*	*Estimated initial targeted uplift (mscf/d)*
PL511	Myall Creek 4	Perforate and stim new zones	25m of behind pipe pay in Lower Tinowon	1,500
PL511	Myall Creek 2	Perforate and stim new zones	25m of behind pipe pay in Lower Tinowon	1,500
PL511	Myall Creek 3	Perforate and stim new zones	25m of behind pipe pay in Lower Tinowon	1,500
PL71	Parknook 2	Perforate new zones	25m of behind pipe potential over Showgrounds, Rewan and Bandanna	400
PL71	Parknook 5	Perforate new zones	28m of behind pipe potential over Showgrounds, Rewan and Bandanna	350
PL71	Warroon 1	Perf & Stim new zones	Perf and stimulate Rewan	350
			TOTAL	**5,600**
First drilling / deepening targets				
Tenement	*Well*	*Operation*	*Details*	*Estimated initial flow (mscf/d)*
PL511	Myall Creek 12	New drill and stimulate	Targeting entire Tinowon interval	3,000
PL511	Myall Creek 13	New drill and stimulate	Targeting entire Tinowon interval	3,000
PL511	Myall Creek 14	New drill and stimulate	Targeting entire Tinowon interval	3,000
PL511	Myall Creek 8	Deepen, case & stim	Perforate Lower Tinowon and stimulate both Upper and Lower Tin	2,500
PL511	Myall Creek 6	Deepen, case & stim	Perforate and stimulate all Tinowon	2,500
PL511	Myall Creek 11	Redrill Underbalanced	Redrill underbalanced; perforate all Tinowon sands	1,800
PL511	Myall Creek 7	Deepen well underbalanced	25m of underlying pay in Lower Tinowon	600
			TOTAL	**16,400**

Table 2: initial well stimulation and drilling program

Review of operations and activities (continued)

Northern Australia

Total Northern Australia Best Estimate Prospective Gas Resources increased from 34 Tscf to 57 Tscf, an increase of 66%

Armour booked maiden Prospective Gas Resources in the Tawallah Group, McArthur Basin (NT) and in the Riversleigh Shale Formation (QLD). Total Northern Australia Best Estimate Prospective Gas Resources increased from 34 Tscf to 57 Tscf, an increase of 66% as of September 2015, compared to resources previously reported. 97 new conventional closure leads were identified in Northern Territory exploration tenements.

An update on Prospective Gas Resources in the Northern Territory and Queensland was undertaken by the Company, as set out in Table 3. The prospective resource assessment was performed independently by SRK Consulting (Australasia) Pty Ltd.

Armour's total Best Estimate Prospective Gas Resources in Northern Australia increased from 34 to 57 Trillion cubic feet (Tscf), a 66% increase, as of September 2015, compared to resources previously reported.

The update included maiden Prospective Gas Resources from the Tawallah Group Unconventional Reservoirs in the McArthur Basin of the Northern Territory, as first announced by Armour on 29 April 2015, and the Riversleigh Shale located beneath the Lawn Hill Shale in ATP 1087, Queensland.

In addition, a new combined inventory totalling 193 conventional leads and prospects in the Northern Territory can target 4.9 Tscf of Best Estimate Prospective Gas Resources.

Previous (best estimate)		Updated (best estimate)	
NT unconventional gas	**Tscf**	**NT unconventional gas**	**Tscf**
Barney Creek Shale (EP171, 176) [1]	13.0	Barney Creek Shale (EP171, 176) [1]	13.0
		Wollogorang Shale, Tawallah Group [5]	6.9
		McDermott Shale, Tawallah Group [5]	10.1
NT conventional gas		**NT conventional gas**	
All leads and prospects [1][2][3]	2.6	All leads and prospects [1][2][3][5]	4.9
NT total gas prospective resources	**15.6**	**NT total gas prospective resources**	**34.9**
Qld unconventional gas		**Qld unconventional gas**	
Lawn Shale (ATP1087) [4]	18.7	Lawn Shale (ATP1087) [6]	8.1
		Riversleigh Shale (ATP1087) [7]	14.0
Qld total gas prospective resources	**18.7**	**Qld total gas prospective resources**	**22.1**
NT/Qld gas prospective resources	**34.3**	**NT/Qld gas prospective resources**	**57.0**

Table 3 - Armour's updated Prospective Gas Resources - NT and QLD (best estimates, recoverable)

Review of operations and activities (continued)

TABLE 3 FOOTNOTES- RESOURCE REPORTS
(1) MBA Report, Conventional and Unconventional Prospective Resource Estimate EP 171 & EP 176, NT, October 2011
(2) D&M Report, Prospective Resources Attributed to Certain Prospects in Various License Blocks, NT, April 2013
(3) SRK Report, Coxco Dolomite Resource Evaluation Batten Trough, McArthur Basin, EP 171, 176, 190, NT, November 2013
(4) MBA Report, Unconventional Prospective Resource Assessment, ATP (A) 1087, QLD, November 2011
(5) SRK Report, SRK Report, Conventional and Unconventional Resource Assessment of the Wollogorang and McDermott Formations - Tawallah Group, NT, September 2015
(6) SRK Report, Lawn Hill Formation Prospective Gas Resources ATP 1087, QLD, September 2015
(7) SRK Report, Riversleigh Siltstone Formation Prospective Gas Resources ATP 1087, QLD, September 2015

Jemena was selected by the Northern Territory Government to construct and operate the NEGI

Jemena Northern Gas Pipeline Pty Ltd (Jemena) was selected to construct and operate the North East Gas Interconnector (NEGI) Pipeline. The NEGI will be constructed via the Northern Route from Tennant Creek, Northern Territory to Mount Isa, Queensland, a distance of 622 kilometres (see Figure 5). The pipeline will cost approximately $800 million to construct, without any financial commitment from taxpayers and is expected to be constructed by the end of 2018.

The new pipeline is a significant enabler for upstream gas projects in the Northern Territory. It will provide additional and large scale market access for vast gas resources identified in recent years by Armour Energy and other explorers in the Northern Territory by connecting this new petroleum province to growing east coast gas markets. Gas demand on the east coast of Australia is projected to surge to above 2000 PJ per annum by the end of 2016, up from less than 700 PJ per annum 2 years ago, as Queensland's CSG to LNG projects are added to the east coast's existing domestic gas requirements. East coast gas demand includes that of NSW which has so far been unable to develop its own gas resources to service its population's needs.

It has been announced that the Northern Route for the new pipeline has been selected from Tennant Creek to Mount Isa and is expected to traverse Armour's Exploration Permits EP(A) 177 and 178. EP(A)'s 177 and 178 are part of Armour's Northern Territory portfolio.

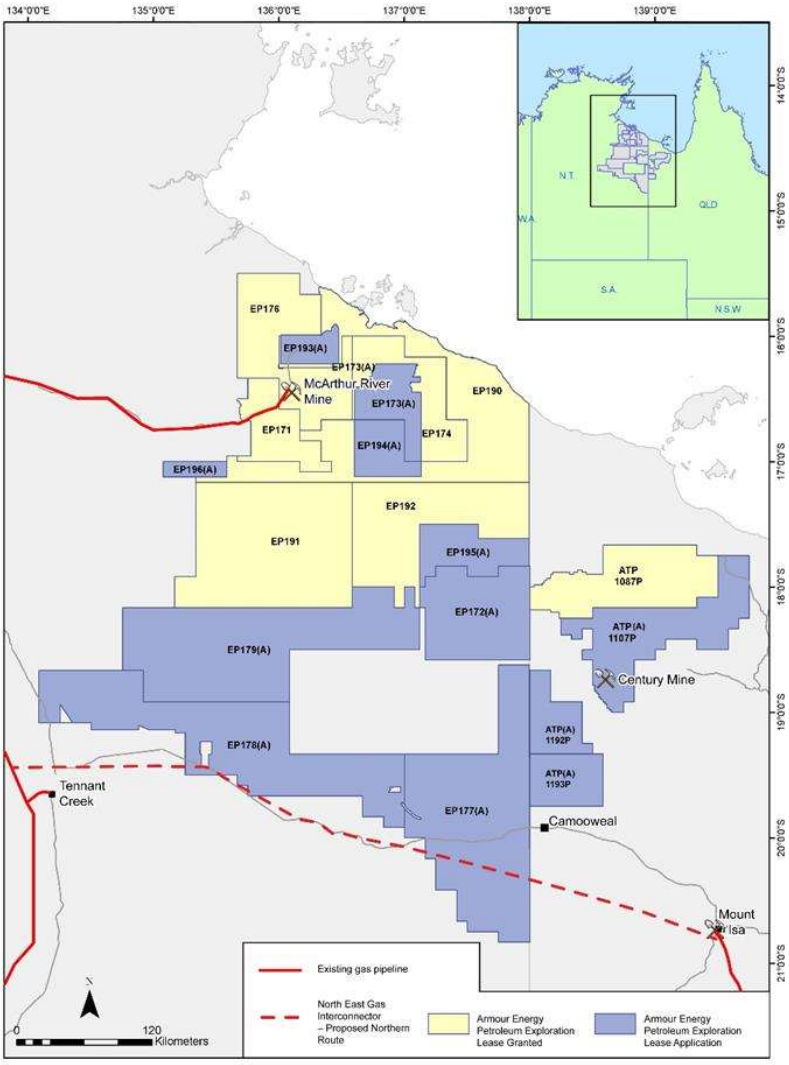


Figure 5: North East Gas Interconnector - location of proposed northern route, and Armour's exploration tenements

Victoria (JV with Lakes Oil)

Exploration and development in Victoria is on hold following the Government's recent decision to permanently ban the exploration and development of all onshore unconventional gas in Victoria, and extend the current moratorium on conventional onshore gas until 2020. Refer to the events subsequent to the balance date for further information.

Review of operations and activities (continued)

Ripple Resources

Amour Energy's wholly owned minerals subsidiary Ripple Resources, is focused on mineral exploration and development within the Group's north Australian tenement areas, covering much of the Carpentaria Mineral Belt and its western equivalent over the Victoria Downs Basin.

Approximately 12,000 square kilometres of exploration licences have been obtained, of which all have been granted to date.

Exploration work undertaken during the reporting year, within Ripple Resources granted exploration permits includes continued:

- Regional modelling of prospective metal-bearing strata within the Tawallah Group;
- Interpretation of open-file and Armour Energy acquired geophysical survey data;
- Review of previous exploration work and relevant literature to Ripple's exploration areas;
- Mapping and interpretation of previous steam sediment and soil geochemistry work;
- Phase 1 and 2 of the CSIRO study (now complete) of the mineralisation potential of the Wollogorang and McDermott Formations of the Tawallah Group.

General

Armour and DGR Limited execute agreements for a bridging loan facility

On 30 September 2015, Armour and DGR Global Limited executed a Term Sheet in relation to an interim financing arrangement for Armour's acquisition of the Roma Shelf assets. The parties subsequently executed comprehensive legal agreements in relation to the facility. The original date for the repayment or extension of the finance facility was 31 March 2016.

The bridging loan facility offered by DGR Global Ltd was secured under documents executed between the parties. Following the closing of the AEGP Australia partial take-over offer, Armour provided security to DGR Global as provided under the facility agreement, thereby reducing the interest rate applicable to the bridging loan facility from 22% to 15% per annum.

Both Armour and DGR Global have subsequently agreed to extend the date for repayment or extension of the facility to 31 December 2016.

Armour continues to progress negotiations with other potential third-party / commercial financiers in relation to the Surat Basin asset package.

Attempt by WestSide Corporation at an unsolicited takeover bid of Armour

During the year, WestSide Corporation Limited (WestSide) made an unsolicited, hostile take-over bid for all of the shares of Armour Energy Limited at 12 cents per share, payable in cash. This initial offer was rejected by the Board of Armour in the Target's Statement published on 7 October 2015.

Westside revised their offer for all the shares of Armour Energy Limited at 20 cents per share, payable in cash (Revised Offer). In addition, Armour would provide shareholders with a dividend distribution of Lakes Oil shares worth up to 1.4 cents for each Armour share held (if the Revised Offer became unconditional). In the absence of a superior proposal in the First supplementary Target's statement Directors of Armour recommended the revised Westside offer to shareholders.

Both the original and revised take-over offers made by WestSide were subject to a condition that Armour not proceed with the farm-out transaction with AEGP as announced by Armour on 20 August and 11 September 2015. A subsequent superior proposal by AEGP was overwhelmingly supported by shareholders during a shareholder meeting on 30 October 2015.

Review of operations and activities (continued)

Northern Territory Farm-out to AEGP Australia

As a result of the overwhelming approval by Armour shareholders at the Extraordinary General Meeting convened by the Company on 30 October 2015, Armour entered into a series of agreements with AEGP Australia, including a Farm-out Agreement under which AEGP Australia Pty Ltd (AEGP) proposed to acquire a 75% interest in Armour's McArthur Basin oil and gas project in the Northern Territory for an investment of up to USD130m over a five year period.

Armour considered that all of the conditions precedent relating to the Northern Territory tenements the subject of the Farm-out Agreement with AEGP had been satisfied. Accordingly, on 29 January 2016 Armour issued a Notice to Complete to AEGP requiring completion to take place on 2 February 2016. AEGP failed to complete on 2 February 2016.

Supreme Court proceedings were initiated by AEGP. Armour instituted separate proceedings in the Supreme Court seeking:

(1) a declaration that the Farm-out Agreement should be completed and specifically performed;

(2) an order that the Farm-out Agreement be specifically performed;

(3) alternatively, a declaration that Armour has used all reasonable endeavours to ensure that the relevant condition as to the assignment of all relevant native title agreements by Armour to AEGP, has been satisfied as expeditiously as possible, and before the relevant deadline in the Farm-out Agreement; and

(4) alternatively, a declaration that Armour is entitled to terminate the Farm-out Agreement.

The claims of both AEGP and Armour were heard from 16 - 18 March 2016, and on 14 July 2016 the Supreme Court of Queensland delivered a judgment in favour of Armour ordering that the Farm-out Agreement should be specifically performed.

Uganda - Amour awarded preferred tenderer status under the First Round of licensing

Armour has advised that it has been awarded preferred tenderer status for a petroleum tenement in Uganda which was let by the Government under its First Round of Licensing for petroleum tenements in the Albertine Rift. Armour has now met with the Government to negotiate the terms of the tenement.

Competent Persons Statement

SPE-PRMS:
Society of Petroleum Engineer's Petroleum Resource Management System - Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be discovered accumulations, resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework. PRMS provides guidelines for the evaluation and reporting of petroleum reserves and resources.

Under-PRMS:
"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.

"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 a 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.

Review of operations and activities (continued)

The estimated quantities of petroleum that may potentially be recovered by the application of future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

The resources within this report are stated in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the supervision of Mr. Luke Titus, Chief Geologist, Armour Energy Limited. Mr. Titus qualifications include a Bachelor of Science from Fort Lewis College, Durango, Colorado, USA and he is an active member of AAPG and SPE. He has over 17 years of relevant experience in both conventional and unconventional oil and gas exploration & production in the US and multiple international basins. Mr. Titus meets the requirements of qualified petroleum reserve and resource evaluator as defined in Chapter 19 of the ASX Listing Rules and has consented to the use of the resource figures in the form and context in which they appear in this report.

The Contingent Resources relating to the Surat Basin PLs and ATPs, were previously reported in the Company's Target Statement of 7 October 2015, based on an independent report received from Risc Operations Pty Ltd on 30 September 2015. Full disclosure and compliance with the relevant Listing Rules was included in the 7 October 2015 Target's Statement, when this information was published for the first time. The Contingent Resource on the Emu Apple well has now converted to a reserve due to the well being commissioned. The material assumptions and technical parameters underpinning the estimate continue to apply and have not materially changed.

The 19 July 2016, 2C Contingent Resources information relating to the Myall Creek, Parknook, Namarah and Warroon Fields near Roma, Queensland, is based on, and fairly represents, data and supporting documentation prepared by, or under the supervision, of Dr Bruce McConachie. Dr McConachie is a Principal Consultant of SRK Consulting (Australasia) Pty Ltd and has a PhD (Geology) from QUT and is a member of AusIMM, AAPG, PESA and SPE. The resources information and figures were issued with the prior written consent of Dr McConachie in the form and context in which it appears in this report.

Information on the estimated prospective resources relating to exploration permits in northern Queensland and the Northern Territory, Australia, is based on an independent analysis conducted by SRK Consulting (Australasia) Pty Ltd and fairly represents the information and supporting documentation reviewed. Figures were issued with the prior written consent of Dr McConachie in the form and context in which it appears in this report. The review was carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the supervision of Dr. Bruce McConachie. Dr. McConachie meets the requirements of qualified petroleum reserve and resource evaluator as defined in Chapter 19 of the ASX Listing Rules and has consented to the use of the resource figures in the form and context in which they appear in this report.

Forward Looking Statement
This report may contain certain statements and projections provided by or on behalf of Armour Energy Limited (Armour) with respect to the anticipated future undertakings. These forward-looking statements reflect various assumptions by or on behalf of Armour. Accordingly, these statements are subject to significant business, economic and competitive uncertainties and contingencies associated with exploration and/or production which may be beyond the control of Armour which could cause actual results or trends to differ materially, including but not limited to price fluctuations, exploration results, resource estimation, environmental risks, physical risks, legislative and regulatory changes, political risks, project delay or advancement, ability to meet funding requirements, factors relating to property title, native title and aboriginal heritage issues, dependence on key personnel, share price volatility, approvals and cost estimates. Accordingly, there can be no assurance that such statements and projections will be realised. Armour makes no representations as to the accuracy or completeness of any such statement of projections or that any forecasts will be achieved.

Additionally, Armour makes no representation or warranty, express or implied, in relation to, and no responsibility or liability (whether for negligence, under statute or otherwise) is or will be accepted by Armour or by any of their respective officers, directors, shareholders, partners, employees, or advisers as to or in relation to the accuracy or completeness of the information, statements, opinions or matters (express or implied) arising out of, contained in or derived from this presentation or any omission from this presentation or of any other written or oral information or opinions provided now or in the future to any interested party or its advisers. In furnishing this information, Armour undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise.

Directors' report

Your Directors present their report on the consolidated entity consisting of Armour Energy Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2016. Throughout the report, the consolidated entity is referred to as the Group.

Directors

The names and details of the Groups Directors in office during the during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Nicholas Mather
William (Bill) Stubbs
Roland Sleeman
Stephen Bizzell

The details of the Directors in office at the date of this report are as follows:

Nicholas Mather - Executive Chairman
BSc (Hons, Geol), MAusIMM

Mr Mather's special area of experience and expertise is the generation of and entry into undervalued or unrecognised resource exploration opportunities. He has been involved in the junior resource sector at all levels for more than 25 years. In that time he has been instrumental in the delivery of major resource projects that have delivered significant gains to shareholders. As an investor, securing projects and financiers, leading exploration campaigns and managing emerging resource companies Mr Mather brings a wealth of valuable experience.

During the past three years Mr Mather has also served as a Director of the following listed companies:

- DGR Global Ltd*
- Dark Horse Resources Limited*
- Aus Tin Mining Limited*
- Lakes Oil NL*
- SolGold plc., which is listed on the London Stock Exchange (AIM)*
- IronRidge Resources Ltd, which is listed on the London Stock Exchange (AIM)*
- Orbis Gold Ltd (resigned 16 February 2015)

* Current directorships

William (Bill) Stubbs - Non Executive Director
LLB

Mr Stubbs is a lawyer of 35 years' experience and is currently the Chairman of DGR Global Ltd. He was the co-founder of the legal firm Stubbs Barbeler and has practiced extensively in the area of Commercial Law including Stock Exchange listings and all areas of mining law.

Mr Stubbs has held the position of Director of various public companies over the past 25 years in the mineral exploration and biotech fields. He is also the former Chairman of Alchemia Ltd, and Bemax Resources NL which discovered and developed extensive mineral sands resources in the Murray Basin. He was the founding Chairman of Arrow Energy NL which originally pioneered coal seam gas development in Queensland's Bowen and Surat Basins from 1998, and is now a world-wide coal seam gas company.

During the past three years Mr Stubbs has also served as a Director of the following listed companies:

- DGR Global Ltd*
- Lakes Oil NL*
- Coalbank Ltd (resigned 22 November 2013)

* Current directorships

Directors' report (continued)

Directors (continued)

Roland Sleeman - Non Executive Director
BEng (Mech), MBA

Mr Sleeman has 34 years' experience in oil and gas as well as utilities and infrastructure. Mr Sleeman has served in senior management roles, including with Eastern Star Gas Limited as Chief Commercial Officer and AGL as General Manager of the Goldfields Gas Pipeline.

Mr Sleeman has extensive engineering and business experience including negotiation of gas sales agreements that provided a foundation for development of the North West Shelf Project, commercialisation of new gas and power station opportunities and management of major gas transmission pipeline infrastructure. Mr Sleeman has provided specialist commercial, regulatory and project development advice to both public and private sectors.

Mr Sleeman has not served as a Director of any other listed company in the last three years.

Stephen Bizzell - Non Executive Director
BComm, MAICD

Mr Bizzell is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd.

Mr Bizzell was previously an Executive Director of Arrow Energy Ltd from 19999 until its acquisition by Shell and Petro China, for $3.5 billion in August 2010. He was instrumental in Arrow Energy's corporate and commercial success and its growth form a junior explorer to a large integrated energy company. He was also a co-founder and Non-Executive Director of Bow Energy Ltd until its takeover $0.55 billion in January 2012. He has had further experience in the unconventional oil and gas sector as a Director of Dart Energy Ltd, Apollo Gas Ltd, and UIL Energy Ltd.

Mr Bizzell qualified as a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Tax division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 20 years' corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies.

He is a former director of Queensland Treasury Corporation.

During the past three years Mr Bizzell has also served as a Director of the following listed companies:

- Hot Rock Ltd (resigned 14 August 2014)
- Dart Energy Ltd (resigned 26 November 2014)
- Diversa Ltd*
- Renascor Resources Ltd* (formerly Renaissance Uranium Ltd)
- Stanmore Coal Ltd*
- Titan Energy Services Ltd (resigned 14 April 2016)
- Laneway Resources Limited* (formerly Renison Consolidated Mines NL)
- UIL Energy Ltd*

* Current directorships

Directors' report (continued)

Directors (continued)

As at the date of this report, the interests of the Directors in the shares and options of Armour Energy Ltd were:

	Number of ordinary shares	Number of options over ordinary shares
Nicholas Mather	3,126,831	Nil
William Stubbs	354,158	Nil
Roland Sleeman	60,000	Nil
Stephen Bizzell	1,131,578	Nil

Company secretary

Karl Schlobohm
B.Comm, B.Econ, M.Tax, Ca, AICD

Mr Schlobohm is a Chartered Accountant with over 20 years' experience across a wide range of industries and businesses. He has extensive experience with financial accounting, corporate governance, company secretarial duties and board reporting.

He currently acts as the Company Secretary for ASX-listed DGR Global Ltd, Dark Horse Resources Ltd, Aus Tin Mining Ltd, LSE (AIM) - listed SolGold Plc and IronRidge Resources Ltd. Mr Schlobohm was also a Director of Dark Horse Resources Ltd from February 2014 to October 2014.

Corporate structure

Armour Energy Ltd (Armour) is a company limited by shares that is incorporated and domiciled in Australia. It was converted to a public company on 14 January 2011, and became an ASX-listed company on 26 April 2012.

Principal activities

The principal activities of the Group during the financial year involved exploration for economically viable reserves of both conventional and unconventional gas and associated liquids in the Northern Territory, Queensland and in the onshore Gippsland basin in Victoria in joint venture with Lakes Oil NL.

During the year, Armour's wholly owned subsidiary Armour Energy (Surat Basin) Pty Ltd acquired petroleum resources, tenures, production and transportation infrastructure assets on the Roma Shelf, Queensland. These assets will provide gas, oil, LPG and condensate products from which the Group will generate an income, and will become a principal activity for the Group.

Ripple Resources is a wholly owned subsidiary of Armour, and holds seven granted EPM's (Exploration Permits for Minerals) in Queensland, within the area covered by ATP1087. In the Northern Territory, Ripple Resources holds twenty granted EPM's and one application, covering a large number of Armour's applications and tenements.

Dividends

No dividends were declared or paid during the financial year or since the end of the year.

Review and results of operations

The loss after income tax for the Consolidated Entity for the year ended 30 June 2016 was $18,873,927 (2015 loss: $6,575,074).

The Directors confirm that the period since Armour's admission on the Australian Securities Exchange, Armour has used its cash (and assets in a form readily convertible to cash) in a way consistent with its business objectives.

Directors' report (continued)

Review and results of operations (continued)

The review of operations for the year is discussed in the Annual Report under the heading "Review of Operations".

Significant changes in the state of affairs

In the opinion of the Director's, there were no other significant changes in the state of affairs of the Group that occurred during the financial year under review not otherwise disclosed in this report or the financial statements of the Group for the financial year.

Future developments, prospects and business strategies

Planned developments in the operations of the Group and the expected results of those operations, as well as the Group's corporate strategy in subsequent financial years have been discussed where appropriate in the Annual Report under the "Review of Operations".

There are no further developments of which the Directors are aware which could be expected to affect the results of the Group's operations and plans, other than information which the Directors believe comment on, or disclosure of, would prejudice the interests of the Group.

Environmental regulations and performance

The Directors have put in place strategies and procedures to ensure that the Group manages its compliance with environmental regulations. The Director's are not aware of any breaches of any applicable environmental regulations.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

Remuneration report (audited)

This remuneration report for the year ended 30 June 2016 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* and its regulations. This information has been audited as required by section 308(3C) of the *Corporations Act 2001.*

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group, and includes the executive team.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration policy
3. Non-Executive Director remuneration arrangements
4. Executive remuneration arrangements
5. Group performance and the link to remuneration
6. Executive contractual arrangements
7. Equity instruments disclosures

Directors' report (continued)

Remuneration report (audited) (continued)

8. Other transactions with key management personnel

1. Individual key management personnel disclosures

Key management personnel

(i) Directors

Nicholas Mather
William (Bill) Stubbs
Roland Sleeman
Stephen Bizzell

(ii) Executives

Robbert de Weijer - Chief Executive Officer (to 30 September 2016)
Chris Ohlrich - Chief Commercial Officer (to 5 April 2016)
Roger Cressey - Chief Operating Officer (and acting Chief Executive Officer from 30 September 2016)
Karl Schlobohm - Company Secretary
Priy Jayasuriya - Chief Financial Officer

Other than the above, there were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

2. Remuneration policy

The Group's remuneration policy is designed to attract, motivate and retain employees and Non-Executive Directors by identifying and rewarding high performers and recognising the contribution of each person to the continued growth and success of the Group.

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team. The Board assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. Such officers are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Group. Further details on the remuneration of Directors and Executives are set out in this Remuneration Report.

The Group aims to reward the Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group. The Board's policy is to align Director and Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives.

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is separate and distinct.

3. Non-Executive Director remuneration arrangements

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders. The Group's specific policy for determining the nature and amount of remuneration of Board members of the Group is as outlined below.

Directors' report (continued)

Remuneration report (audited) (continued)

The Constitution of the Group provides that the Non-Executive Directors are entitled to remuneration as determined by the members in general meeting to be paid as to a fixed amount for each Director. Additionally, Non-Executive Directors are entitled to be reimbursed for properly incurred expenses.

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Group may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect would be to exceed the maximum aggregate amount payable to Non-Executive Directors. A Non-Executive Director is entitled to be paid travelling and other expenses properly incurred by them in attending Director's or general meetings of the Group or otherwise in connection with the business of the Group.

All Directors have the opportunity to qualify for participation in the Employee Share Option Plan, subject to the approval of shareholders.

The remuneration of Non-Executive Directors for the year ended 30 June 2016 is detailed in this Remuneration Report.

4. Executive remuneration arrangements

The Group aims to reward the Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- link reward with the strategic goals and performance of the Group;
- align the interests of Executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

The remuneration of the Executives may from time to time be fixed by the Board. The remuneration will comprise a fixed remuneration component and also may include offering specific short and long-term incentives, in the form of:

- performance based salary increases and/or bonuses; and/or
- the issue of options.

The remuneration of the Executives employed by the Group for the year ended 30 June 2016 is detailed in this Remuneration Report.

5. Group performance and the link to remuneration

During the financial year, the Group has generated losses as its principal activity was exploration for economically viable reserves of both conventional and unconventional natural oil and gas.

Armour Energy Ltd listed on the ASX on 26 April 2012. The closing share price as at 30 June 2016 was $0.06.

	2012	2013	2014	2015	2016
Share price at 30 June	$0.28	$0.22	$0.16	$0.05	$0.06

As the Group is still in the exploration and development stage, the link between remuneration, Group performance and shareholder wealth is tenuous. Share prices are subject to the influence of oil and gas prices and market sentiment toward the sector, and as such increases or decreases may occur quite independent of Executive performance or remuneration.

Directors' report (continued)

Remuneration report (audited) (continued)

6. Executive contractual arrangements

It is the Board's policy that employment agreements are entered into with all Executives and employees.

The current employment agreement with the Chief Executive Officer ("CEO") has a notice period of three (3) months. All other employment agreements have three months (or less) notice periods. Executives are entitled to their statutory entitlements of accrued annual leave and long service leave together with any superannuation on termination. No other termination payments are payable.

The rights, responsibilities and remuneration terms for each Non-Executive Director are set out in a letter of appointment, pursuant to which:

- Directors are granted the rights to access Group information, and the right to seek independent professional advice;
- Directors are provided with a Deed of Access and Indemnity;
- Directors are provided with coverage under the Group's Directors and Officers insurance policy;
- Directors are made aware of the Group's Corporate Governance policies and procedures;
- Directors are currently entitled to remuneration of $50,000 per annum, plus reasonable expenses for travel and accommodation.

Robbert de Weijer - Chief Executive Officer (8 July 2013 to 30 September 2016)

The Group has an Executive Employment Agreement with Mr de Weijer, which took effect on 8 July 2013.

Under the terms of the agreement:

- Mr de Weijer is entitled to a base remuneration of $400,000 per annum, inclusive of superannuation. If Mr de Weijer is appointed as Managing Director of the Group, his salary will be $425,000 per annum inclusive of superannuation;
- Mr de Weijer is entitled to participate in the issue of incentive options in Armour Energy Ltd in accordance with the Company;s Employee Share Option Scheme;
- Both the Group and Mr de Weijer are entitled to terminate the contract upon giving three (3) months written notice;
- The Group is entitled to terminate the agreement immediately upon Mr de Weijer's insolvency or certain acts of misconduct;
- Mr de Weijer is entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, responsibilities or authority;
- Mr de Weijer is entitled to a series of performance bonuses, at the Boards election, if the following key performance indicators are met:

  (a) 15% max per annum - successful execution of drill programs in NT and QLD on time and on budget (for annual assessment by 30 June in each year);

  (b) 15% max per annum - execution of major conditional gas sales, transportation and/or project sell down or joint venture (for annual assessment by 30 June in each year);

  (c) 20% max per annum - successful implementation of a change of control transaction approved by the Board (upon completion) (once off entitlement) not resulting in termination;

Directors' report (continued)

Remuneration report (audited) (continued)

(d) 10% max per annum - for every 500 petajoules of proven and probable (2P) reserves booked by the Group, as certified by an independent expert under SPP PRMS guidelines (for assessment whenever reasonably required).

Other Executives

Employment contracts entered into with Executives contain the following key terms:

Event	Company Policy
Performance based salary increases and/or bonuses	Board discretion
Short and long-term incentives, such as options	Board discretion
Resignation / notice period	3 months
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination, outside industrial regulation (i.e. 'golden handshakes')	None

The base remuneration, inclusive of superannuation, paid to other key management personnel is set out below:

Base remuneration including Superannuation	
Name	**2016**
Roger Cressey	$330,000
Chris Ohlrich*	$301,125
Karl Schlobohm	$50,000
Priy Jayasuriya	$50,000

* Mr Ohlrich resigned on 5 April 2016.

The Group has an incentive scheme which rewards employees for contributing to the overall performance of the Group. The underlying objective of the incentive arrangements is to:

- Ensure employees understand the Group's business drivers, objectives and performance;
- Strengthen the involvement and focus of employees in achieving the business' objectives; and
- Improve teamwork, communication and interaction among employees.

Under the incentive scheme, the Group may at its discretion, on an annual basis, pay a bonus to permanent employees who are employed by the Group on the final day of the relevant financial year (that is, 30 June).

The maximum amount of bonus that will be paid to each employee in any year is set out in the employee's contract of employment.

The actual amount of bonus paid to each individual employee will be dependent on:

- As to 70% of the potential maximum, the individual employee's performance relative to pre-agreed key performance indicators ('KPIs'); and

- As to 30% of the potential maximum, overall corporate performance compared to predetermined corporate performance targets but subject to satisfactory personal performance.

In 2016, no bonuses were paid or payable for the financial year.

The proportion of performance based payments paid/ payable or forfeited to key management personnel entitled thereto is as follows:

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Directors' report (continued)

Remuneration report (audited) (continued)

	Performance payment paid/ payable 2016	Performance payment forfeited 2016
Robbert de Weijer	-%	100%
Roger Cressey	-%	100%
Chris Ohlrich	-%	100%
Karl Schlobohm	-%	100%
Priy Jayasuriya	-%	100%

Remuneration of Directors and Other Key Management Personnel

The below table represents the remuneration for Directors and Other Key Management personnel for the period 30 June 2016.

Name	Year	Short term benefits		Post-employment	Share based payments		Total	% Consisting of options/ shares	% Performance related
		Salary & fees $	Bonus $	Super-annuation $	Options $	Shares $	$		
Current Directors									-
Nicholas Mather	2016	210,000	-	-	-	-	210,000	-%	-%
	2015	210,000	-	-	-	-	210,000	-%	-%
William Stubbs	2016	50,000	-	-	-	-	50,000	-%	-%
	2015	50,000	-	-	-	-	50,000	-%	-%
Roland Sleeman	2016	50,000	-	-	-	-	50,000	-%	-%
	2015	50,000	-	-	-	-	50,000	-%	-%
Stephen Bizzell	2016	50,000	-	-	-	-	50,000	-%	-%
	2015	50,000	-	-	-	-	50,000	-%	-%
Key Management Personnel									
Robbert de Weijer*	2016	370,113	-	24,975	137,984	10,211	543,283	25.4%	-%
	2015	331,969	-	23,808	384,557	43,243	783,577	49.1%	-%
Roger Cressey	2016	320,066	-	30,435	25,048	8,925	384,474	6.5%	-%
	2015	287,850	-	30,435	13,454	38,676	370,415	3.6%	-%
Chris Ohlrich*	2016	241,139	-	20,398	50,229	7,859	319,625	15.7%	-%
	2015	246,234	-	26,125	184,794	34,054	491,207	37.6%	-%
Karl Schlobohm	2016	46,806	-	-	8,349	2,500	57,655	14.5%	-%
	2015	40,694	-	-	3,363	10,000	54,057	6.2%	-%
Priy Jayasuriya	2016	45,625	-	4,358	8,349	1,482	59,814	14.0%	-%
	2015	40,330	-	4,358	3,363	6,424	54,475	6.2%	-%
	2016	**1,383,749**	-	**80,166**	**229,959**	**30,977**	**1,724,851**		
Total Remuneration	2015	**1,307,077**	-	**84,726**	**589,531**	**132,397**	**2,113,731**		

* Mr Ohlrich resigned on 5 April 2016. Mr de Weijer resigned on 30 September 2016.
No performance based payments to Key Management Personnel were paid or payable during 2016 (2015: nil)

7. Equity instrument disclosures

Options granted as part of remuneration for the year ended 30 June 2016

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Directors' report (continued)

Remuneration report (audited) (continued)

Options may be issued to Directors and Executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of Directors and Executives of the Group to align comparative shareholder return and reward for Directors and Executives.

During the year ended 30 June 2016, there were 8,100,000 options granted as remuneration to Key Management Personnel. Details of all options on issue over unissued ordinary shares in Armour Energy Ltd at 30 June 2016 to Key Management Personnel as remuneration are set out below:

	Grant date	Grant number	Exercise price	Expiry date	Vest date	Number vested	% vested	Value per option at grant date #	Exercised in current year	Exercised in prior years	Balance at 30 June 2016
C Ohlrich	25/07/13	1,250,000	$0.50	26/08/18	6,18,30 months	1,250,000	100%	$0.190	0	0	1,250,000
C Ohlrich	25/07/13	1,250,000	$0.75	26/08/18	6,18,30 months	1,250,000	100%	$0.174	0	0	1,250,000
C Ohlrich	25/07/13	1,250,000	$1.00	26/08/18	6,18,30 months	1,250,000	100%	$0.163	0	0	1,250,000
R de Weijer	26/02/14	1,500,000	$0.26	24/02/17	26/02/14	1,500,000	100%	$0.097	0	0	1,500,000
C Ohlrich	26/02/14	750,000	$0.26	24/02/17	26/02/14	750,000	100%	$0.097	0	0	750,000
R Cressey	26/02/14	400,000	$0.26	24/02/17	26/02/14	400,000	100%	$0.097	0	0	400,000
P Jayasuriya	26/02/14	100,000	$0.26	24/02/17	26/02/14	100,000	100%	$0.097	0	0	100,000
K Schlobohm	26/02/14	100,000	$0.26	24/02/17	26/02/14	100,000	100%	$0.097	0	0	100,000
R de Weijer	06/02/15	800,000	$0.20	06/02/17	06/02/15	800,000	100%	$0.013	0	0	800,000
R de Weijer	06/02/15	400,000	$0.30	06/02/18	06/02/15	400,000	100%	$0.015	0	0	400,000
C Ohlrich	06/02/15	400,000	$0.20	06/02/17	06/02/15	400,000	100%	$0.013	0	0	400,000
C Ohlrich	06/02/15	200,000	$0.30	06/02/18	06/02/15	200,000	100%	$0.015	0	0	200,000
R Cressey	06/02/15	400,000	$0.20	06/02/17	06/02/15	400,000	100%	$0.013	0	0	400,000
R Cressey	06/02/15	200,000	$0.30	06/02/18	06/02/15	200,000	100%	$0.015	0	0	200,000
P Jayasuriya	06/02/15	100,000	$0.20	06/02/17	06/02/15	100,000	100%	$0.013	0	0	100,000
P Jayasuriya	06/02/15	50,000	$0.30	06/02/18	06/02/15	50,000	100%	$0.015	0	0	50,000
K Schlobohm	06/02/15	100,000	$0.20	06/02/17	06/02/15	100,000	100%	$0.013	0	0	100,000
K Schlobohm	06/02/15	50,000	$0.30	06/02/18	06/02/15	50,000	100%	$0.015	0	0	50,000
R de Weijer	29/03/16	1,200,000	$0.20	29/03/21	1/3 each anniversary	0	0%	$0.064	0	0	1,200,000
R Cressey	29/03/16	900,000	$0.20	29/03/21	1/3 each anniversary	0	0%	$0.064	0	0	900,000
K Schlobohm	29/03/16	300,000	$0.20	29/03/21	1/3 each anniversary	0	0%	$0.064	0	0	300,000
P Jayasuriya	29/03/16	300,000	$0.20	29/03/21	1/3 each anniversary	0	0%	$0.064	0	0	300,000
R de Weijer	29/03/16	1,200,000	$0.35	29/03/21	1/3 each anniversary	0	0%	$0.059	0	0	1,200,000
R Cressey	29/03/16	900,000	$0.35	29/03/21	1/3 each anniversary	0	0%	$0.059	0	0	900,000
K Schlobohm	29/03/16	300,000	$0.35	29/03/21	1/3 each anniversary	0	0%	$0.059	0	0	300,000
P Jayasuriya	29/03/16	300,000	$0.35	29/03/21	1/3 each anniversary	0	0%	$0.059	0	0	300,000
R de Weijer	29/03/16	1,200,000	$0.50	29/03/21	1/3 each anniversary	0	0%	$0.056	0	0	1,200,000
R Cressey	29/03/16	900,000	$0.50	29/03/21	1/3 each anniversary	0	0%	$0.056	0	0	900,000
K Schlobohm	29/03/16	300,000	$0.50	29/03/21	1/3 each anniversary	0	0%	$0.056	0	0	300,000
P Jayasuriya	29/03/16	300,000	$0.50	29/03/21	1/3 each anniversary	0	0%	$0.056	0	0	300,000

Value per option at grant date is calculated using the Black-Scholes option pricing model, which takes into account factors such as the option exercise price, the share price at the date of issue and volatility of the underlying share price and the time to maturity of the option (refer Note 21).

Shares issued on exercise of remuneration options

Directors' report (continued)

Remuneration report (audited) (continued)

There were 1,200,000 options exercised during the year that were previously granted as remuneration (2015: nil).

Performance shares

There are nil performance shares on issue over unissued ordinary shares in Armour Energy Ltd as at 30 June 2016 (2015: nil).

Shareholdings

At the beginning of the year, the Group's Management agreed for 20 per cent of their base remuneration to be paid by way of shares in Armour Energy Ltd. The shares were issued in advance, based on the preceeding 20-day VWAP. This arrangement was applicable for a limited time and is subject to board approval each quarter.

Details of all ordinary shares in Armour Energy Ltd at 30 June 2016 held by Key Management Personnel is set out below:

	Balance 1 July 2015	Granted as compensation	Options Exercised	Net change other#	Balance 30 June 2016
Directors					
Nicholas Mather	2,719,855	-	-	406,976	3,126,831
William Stubbs	410,000	-	-	(55,842)	354,158
Roland Sleeman	60,000	-	-	-	60,000
Stephen Bizzell	1,310,000	-	-	(178,422)	1,131,578
Other Key Management Personnel					
Robbert de Weijer	1,055,256	200,118	800,000	(158,111)	1,897,263
Roger Cressey	1,203,785	174,923	400,000	(324,955)	1,453,753
Chris Ohlrich	527,203	154,019	-	(681,222)	-
Karl Schlobohm	192,222	48,996	-	(32,853)	208,365
Priy Jayasuriya	143,325	29,052	-	(100,000)	72,377
Total	**7,621,646**	**607,108**	**1,200,000**	**(1,124,429)**	**8,304,325**

"Net change other" above includes the balance of shares held on appointment / resignation, shares issued in lieu of authorised bonuses, and shares acquired or sold for cash on similar terms and conditions to other shareholders (including sale of shares pursuant to the proportional takeover by AEGP).

There were no shares held nominally at 30 June 2016.

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Directors' report (continued)

Remuneration report (audited) (continued)

Option Holdings

	Balance 1 July 2015	Granted as remuneration	Options exercised	Net change other#	Balance 30 June 2016	Total vested	Total vested and exercisable	Total vested and un-exercisable
Directors								
Nicholas Mather	-	-	-	-	-	-	-	-
William Stubbs	-	-	-	-	-	-	-	-
Roland Sleeman	-	-	-	-	-	-	-	-
Stephen Bizzell	-	-	-	-	-	-	-	-
Other Key Management Personnel								
Robbert de Weijer	11,000,000	3,600,000	(800,000)	(7,500,000)	6,300,000	2,700,000	2,700,000	-
Roger Cressey	1,400,000	2,700,000	(400,000)	-	3,700,000	1,000,000	1,000,000	-
Chris Ohlrich	5,500,000	-	-	(400,000)	5,100,000	5,100,000	5,100,000	-
Karl Schlobohm	350,000	900,000	-	(100,000)	1,150,000	250,000	250,000	-
Priy Jayasuriya	350,000	900,000	-	(100,000)	1,150,000	250,000	250,000	-
Total	**18,600,000**	**8,100,000**	**(1,200,000)**	**(8,100,000)**	**17,400,000**	**9,300,000**	**9,300,000**	**-**

*"Net Change Other" above includes the balance of options held on appointment / resignation, options acquired or sold for cash on similar terms and conditions to other shareholders, and options that have expired unexercised.

There were no share options held nominally at 30 June 2016 (2015: nil)

Other transactions with Key Management Personnel

For the year ended 30 June 2016, nil (2015: nil) was paid or payable to Key Management Personnel of the Group.

(End of Remuneration Report)

Directors' report (continued)

Meetings of Directors

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows:

	Board Meetings		Audit and Risk		Remuneration Committee	
Director	No. of meetings held while in office	Meetings attended	No. of meetings held while in office	Meetings attended	No. of meetings held while in office	Meetings attended
Nicholas Mather	9	9	-	-	-	-
William (Bill) Stubbs	9	8	2	1	-	-
Roland Sleeman	9	9	2	2	-	-
Stephen Bizzell	9	8	2	2	-	-

Indemnification and insurance of Directors, officers and auditor

Each of the Directors, the Chief Executive Officer and Secretary of the Group has entered into a Deed with the Group whereby the Group has provided certain contractual rights of access to books and records of the Group to those Directors. The Group has insured all of the Directors. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act does not require disclosure of the information in these circumstances. The Group has not indemnified or insured its auditor.

The Group has not indemnified or insured its auditor.

ASX Waiver

On 4 December 2015, the Company was granted a waiver from ASX from ASX Listing Rule 10.1 (Waiver).

The Waiver permitted the Company to grant security over its assets to DGR Global Limited (DGR) (Security) pursuant to a secured bridging finance facility (DGR Global Loan Facility), without obtaining shareholder approval (refer to the Company's ASX announcement dated 10 February 2016).

Pursuant to the terms of the Waiver, the Company is required to disclose a summary of the material terms of the Security in each annual report during the term of the Security.

Accordingly, the Company advises that the Security:

(1) was granted pursuant to a General Security Deed in favour of DGR on 12 January 2016 and relates to the DGR Global Loan Facility;

(2) consists of a first ranking security over the assets of Armour and subsidiaries and the assets of those subsidiaries, excluding:

  (a) the Company's Surat Basin assets; and

  (b) the rights of Armour and its subsidiaries under certain material contracts where the terms of those material contracts expressly prohibits Armour or its subsidiaries from granting a security interest over its rights in respect of that contract; and

(3) includes a term that if an event of default occurs and DGR exercises its rights under the Security, neither DGR nor any of its associates can acquire any legal or beneficial interest in an asset of Armour or its subsidiaries in full or part satisfaction of Armour's obligations under the Security, or otherwise deal with the assets of Armour or its subsidiaries, without Armour first having complied with any applicable listing rules, include ASX Listing Rule 10.1, other than as required by law or through a receiver, or receiver or manager (or analogous person) appointed by DGR exercising its power of sale under the Security and selling the assets to an unrelated third party on arm's length commercial terms and conditions and distributing the cash proceeds DGR in accordance with its legal entitlements.

Directors' report (continued)

Significant events after balance date

DGR Global Loan Facility

On 28 September 2016, Armour Energy Ltd announced that further to its previous announcements of 31 March, 31 May 2016 and 29 July, it has secured an extension of the DGR Global Loan Facility to 31 December 2016 (the new termination date). This three month extension has been agreed by DGR on the current terms of the facility which is secured and has an interest rate of 15 per cent per annum. All other key terms of the DGR Global Loan Facility remain as previously advised.

American Energy Global Partners Australia

As announced on 15 July and 18 August 2016 in relation to the proceedings instituted by AEGP Australia Pty Ltd (AEGP) in the Supreme Court of Queensland, Armour advised that the Supreme Court delivered a judgment in favour of Armour ordering that the Farm-Out Agreement should be specifically performed.

Following the death of AEGP Director and US affiliate American Energy Partners (AEP) founder, Chairman and CEO Aubrey McClendon on March 2nd 2016, AEGP found itself in a position which rendered it incapable of performing of its obligations pursuant to the Supreme Court judgment.

A wholly owned subsidiary of AEGP, AEGPAS Pty Ltd (AEGPAS) held 40,063,785 shares in Armour Energy Ltd. Given the uncertainty of the outcome of further pursuit of performance by AEGP, Armour agreed to acquire AEGPAS from AEGP at no cost in settlement of AEGP's obligations to Armour. AEGP also surrendered its right to earn up to a 75% interest in Armour's Northern Territory tenements, allowing Armour to retain a 100% interest in these assets.

Accordingly, Armour and AEGP agreed to the termination of the Farm-out Agreement. AEGP acquired the shares as a result of subscription to 16.9 million Armour Energy Ltd shares at 20c per share and also as a result of the proportional take-over bid at 25c per share for a further 23.1 million shares. This equated to a total expenditure of approximately $9 million by AEGP in relation to the Shares.

Resale of Armour shares

On 1 September 2016 the Company finalised the resale of 40,063,785 Armour Energy shares, following the settlement with AEGP. The resale realised proceeds of approximately $3.05 million. The shares were acquired by a number of institutional and sophisticated investors including existing shareholders of the Company.

Victorian assets in Joint Venture with Lakes Oil NL

On 30 August 2016, the Victorian Government announced a permanent ban on the exploration and development of all onshore unconventional gas in Victoria, including hydraulic fracturing and coal seam gas. The Government also plans to legislate an extension of the current moratorium on the exploration and development of conventional onshore gas until 30 June 2020, with hydraulic fracturing to remain banned. During this time, the Government will undertake extensive scientific, technical and environmental studies on the risks, benefits and impacts of onshore gas.

Following this announcement, the Group carried out an impairment review of the Victorian exploration and evaluation assets, and as a result, an impairment loss was recognised in the profit or loss.

Apart from the above, the Directors are not aware of any other significant changes in the state of affairs of the Group after the balance date that are not covered in this report.

Directors' report (continued)

Non-audit services

Non-audit services by the Group's auditor BDO Audit Pty Ltd were provided in relation to the takeover attempt by Westside Corporation, AEP farm-out, acquisition of Surat Basin assets, and the DGR Finance Facility. For the year ended 30 June 2016, $225,408 was paid or payable (2015: nil).

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Group support and have adhered to the principles of corporate governance. The Group's corporate governance statement has been released as a separate document and is located on our website at www.armourenergy.com.au.

Auditor's independence declaration

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 32.

Options

At the date of this report, the unissued ordinary shares of Armour Energy Ltd under option are as follows:

Grant date	Date of Expiry	Exercise price	Number under option
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 2014	24 February 2017	$0.26	3,110,000
6 February 2015	6 February 2017	$0.20	2,400,000
6 February 2015	6 February 2018	$0.30	1,200,000
29 March 2016	29 March 2021	$0.20	4,350,000
29 March 2016	29 March 2021	$0.35	4,350,000
29 March 2016	29 March 2021	$0.50	4,350,000

Option holders do not have any rights under the options to participate in any share issue of Armour Energy Ltd or any other entity. There were no options exercised up to the date of this report.

Signed in accordance with a resolution of Directors:

Nicholas Mather
Executive Chairman

30 September 2016

Auditor's Independence Declaration

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DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF ARMOUR ENERGY LIMITED

As lead auditor of Armour Energy Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Armour Energy Limited and the entities it controlled during the year.

T J Kendall
Director

BDO Audit Pty Ltd

Brisbane, 30 September 2016

Shareholder Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 16 September 2016.

A. Distribution Schedule

Fully Paid Ordinary Shares, and Options

	ORDINARY SHARES		ESOP OPTIONS EXERCISABLE AT $0.20 ON OR BEFORE 6 FEB 2017		ESOP OPTIONS EXERCISABLE AT $0.26 ON OR BEFORE 24 FEB 2017	
	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF SHARES
1 to 1,000	40	5,124	-	-	-	-
1,001 to 5,000	181	635,940	-	-	-	-
5,001 to 10,000	257	2,168,309	-	-	-	-
10,001 to 50,000	621	16,575,188	-	-	1	30,000
50,001 to 100,000	187	14,374,338	3	300,000	-	-
100,001+	278	289,099,178	3	1,600,000	7	2,300,000
Total	**1,564**	**322,858,077**	**6**	**1,900,000**	**8**	**2,330,000**

	ESOP OPTIONS EXERCISABLE AT $0.30 ON OR BEFORE 6 FEB 2018		ESOP OPTIONS EXERCISABLE AT $0.20 ON OR BEFORE 29 MARCH 2021		ESOP OPTIONS EXERCISABLE AT $0.35 ON OR BEFORE 29 MARCH 2021	
	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF SHARES
1 to 1,000	-	-	-	-	-	-
1,001 to 5,000	-	-	-	-	-	-
5,001 to 10,000	-	-	-	-	-	-
10,001 to 50,000	-	-	-	-	-	-
50,001 to 100,000	3	800,000	-	-	-	-
100,001+	3	150,000	8	4,350,000	8	4,350,000
Total	**6**	**950,000**	**8**	**4,350,000**	**8**	**4,350,000**

	ESOP OPTIONS EXERCISABLE AT $0.50 ON OR BEFORE 29 MARCH 2021	
	NUMBER OF HOLDERS	NUMBER OF SHARES
1 to 1,000	-	-
1,001 to 5,000	-	-
5,001 to 10,000	-	-
10,001 to 50,000	-	-
50,001 to 100,000	-	-
100,001+	8	4,350,000
Total	**8**	**4,350,000**

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Shareholder Information (continued)

A. Distribution Schedule (continued)

The number of security investors holding less than a marketable parcel of shares is 265 and they hold 896,203 securities.

B. Twenty Largest Holders

Name	Ordinary shares Number held	Percentage of issued shares
DGR GLOBAL LIMITED	75,050,000	23.25
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	20,601,951	6.38
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	13,372,502	4.14
BT PORTFOLIO SERVICES LIMITED	10,435,241	3.23
MR PAUL COZZI	7,571,247	2.35
ROOKHARP INVESTMENTS PTY LIMITED	4,439,894	1.38
J BARLOW CONSULTANTS PTY LTD	4,319,000	1.34
LUJETA PTY LTD	4,050,000	1.25
BPM COMMODITIES LIMITED	3,500,000	1.08
CAPITA TRUSTEES LIMITED	3,455,200	1.07
SIXTH ERRA PTY LTD	2,467,458	0.76
MR THOMAS CHARLES GOODWIN & MRS SUSAN MAREE GOODWIN	2,400,000	0.74
KABILA INVESTMENTS PTY LIMITED	2,379,386	0.74
CPS CONTROL SYSTEMS PTY LIMITED	2,177,769	0.67
ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	2,170,982	0.67
CITICORP NOMINEES PTY LIMITED	2,099,750	0.65
G HARVEY NOMINEES PTY LTD	2,063,969	0.64
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,849,638	0.57
MR LAWRENCE ANDREW BIGGIN & MS MARIA ALICE REILLY	1,800,000	0.56
ONE MANAGED INVT FUNDS LTD	1,727,600	0.54
	167,931,587	52.01

C. Substantial holders

The Company has received substantial shareholding notices from the following parties:

Name	Number of shares	Percentage
DGR GLOBAL LIMITED	75,050,000	23.25%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	20,601,951	6.38%
	95,651,951	29.63%

D. Voting rights

All ordinary shares carry one vote per share without restriction.

E. Restricted Securities

There are no restrictions over any security holdings as at 30 June 2016.

Interest in Tenements

As at the date of this report, the Group has an interest in the following tenements:

Tenement	% Interest	Grant date	Application date	Expiry date	Term	Held by
EP 171	100	29/06/11	N/A	under renewal	N/A	Armour Energy Ltd
EP 176	100	29/06/11	N/A	under renewal	N/A	Armour Energy Ltd
EP 172	100	N/A	19/12/09	N/A	5 years	Armour Energy Ltd
EP 173	100	N/A	19/12/09	N/A	5 years	Armour Energy Ltd
EP 174	100	11/12/12	N/A	10/12/17	5 years	Armour Energy Ltd
EP 177	100	N/A	06/04/10	N/A	5 years	Armour Energy Ltd
EP 178	100	N/A	06/04/10	N/A	5 years	Armour Energy Ltd
EP 179	100	N/A	06/04/10	N/A	5 years	Armour Energy Ltd
EP 190	100	11/12/12	N/A	10/12/17	5 years	Armour Energy Ltd
EP 191	100	03/10/13	N/A	2/10/18	5 years	Armour Energy Ltd
EP 192	100	03/10/13	N/A	2/10/18	5 years	Armour Energy Ltd
EP 193	100	N/A	13/08/10	N/A	5 years	Armour Energy Ltd
EP 194	100	N/A	13/08/10	N/A	5 years	Armour Energy Ltd
EP 195	100	N/A	13/08/10	N/A	5 years	Armour Energy Ltd
EP 196	100	N/A	13/08/10	N/A	5 years	Armour Energy Ltd
ATP 1087	100	19/12/12	N/A	18/12/16	4 years	Armour Energy Ltd
ATP 1107	100	N/A	30/05/12	N/A	4 years	Armour Energy Ltd
ATP 1192	100	N/A	1/10/14	N/A	4 years	Armour Energy Ltd
ATP 1193	100	N/A	1/10/14	N/A	4 years	Armour Energy Ltd
EPM 19833	100	02/11/16	N/A	01/11/19	3 years	Ripple Resources Pty Ltd
EPM 19835	100	09/11/13	N/A	08/11/16	3 years	Ripple Resources Pty Ltd
EPM 19836	100	09/11/13	N/A	08/11/16	3 years	Ripple Resources Pty Ltd
EPM 25410	100	29/05/14	N/A	28/05/17	3 years	Ripple Resources Pty Ltd
EPM 25504	100	10/11/14	N/A	09/11/17	3 years	Ripple Resources Pty Ltd
EPM 25505	100	08/11/15	N/A	07/11/18	3 years	Ripple Resources Pty Ltd
EPM 25802	100	20/05/15	N/A	19/05/18	3 years	Ripple Resources Pty Ltd
EPM 26018	100	04/02/16	N/A	03/02/19	3 years	Ripple Resources Pty Ltd
EPM 26019	100	N/A	04/08/15	N/A	3 years	Ripple Resources Pty Ltd
EPM 26020	100	15/02/16	N/A	14/02/19	3 years	Ripple Resources Pty Ltd
EPM 26022	100	15/02/16	N/A	14/02/19	3 years	Ripple Resources Pty Ltd
ELM 29837	100	27/08/13	N/A	26/08/19	6 years	Ripple Resources Pty Ltd
ELM 29951	100	21/11/13	N/A	20/11/19	6 years	Ripple Resources Pty Ltd
ELM 29952	100	21/11/13	N/A	20/11/19	6 years	Ripple Resources Pty Ltd
ELM 29953	100	18/02/14	N/A	17/02/20	6 years	Ripple Resources Pty Ltd
ELM 29954	100	21/11/13	N/A	20/11/19	6 years	Ripple Resources Pty Ltd
ELM 29955	100	21/11/13	N/A	20/11/19	6 years	Ripple Resources Pty Ltd
ELM 30076	100	09/05/14	N/A	08/05/20	6 years	Ripple Resources Pty Ltd
ELM 30078	100	09/05/14	N/A	08/05/20	6 years	Ripple Resources Pty Ltd
ELM 30079	100	09/05/14	N/A	08/05/20	6 years	Ripple Resources Pty Ltd
ELM 30080	100	09/05/14	N/A	08/05/20	6 years	Ripple Resources Pty Ltd
ELM 30494	100	08/07/15	N/A	07/04/21	6 years	Ripple Resources Pty Ltd
ELM 30736	100	21/08/15	N/A	20/08/21	6 years	Ripple Resources Pty Ltd
ELM 30737	100	21/08/15	N/A	20/08/21	6 years	Ripple Resources Pty Ltd
ELM 30750	100	21/08/15	N/A	20/08/21	6 years	Ripple Resources Pty Ltd
ELM 30751	100	21/08/15	N/A	20/08/21	6 years	Ripple Resources Pty Ltd
ELM 30752	100	21/08/15	N/A	20/08/21	6 years	Ripple Resources Pty Ltd
ELM 30753	100	21/08/15	N/A	20/08/21	6 years	Ripple Resources Pty Ltd
ELM 30774	100	21/08/15	N/A	20/08/21	6 years	Ripple Resources Pty Ltd
ELM 30775	100	21/08/15	N/A	20/08/21	6 years	Ripple Resources Pty Ltd
ELM 30776	100	21/08/15	N/A	20/08/21	6 years	Ripple Resources Pty Ltd
ELM 30810	100	15/02/16	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 30812	100	15/02/16	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 30813	100	15/02/16	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 30817	100	15/02/16	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 30818	100	15/02/16	N/A	14/02/22	6 years	Ripple Resources Pty Ltd

Interest in Tenements (continued)

Tenement	% Interest	Grant date	Application date	Expiry date	Term	Held by
ELM 30822	100	15/02/16	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 30823	100	15/02/16	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 30836	100	15/02/16	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 30925	100	01/03/16	N/A	28/02/22	6 years	Ripple Resources Pty Ltd
ELM 30926	100	01/03/16	N/A	28/02/22	6 years	Ripple Resources Pty Ltd
ELM 30927	100	01/03/16	N/A	28/02/22	6 years	Ripple Resources Pty Ltd
ELM 30943	100	01/03/16	N/A	28/02/22	6 years	Ripple Resources Pty Ltd
ELM 31012	100	N/A	28/09/15	N/A	6 years	Ripple Resources Pty Ltd
PL 14	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 53	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 70	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 511	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 227	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 71 (prod)	90		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 71 (expl)*	72		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 21	87.5		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 22	87.5		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 27	87.5		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 264	90		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 11W*	46.25		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 11 Snake Creek*	25					Armour Energy (Surat Basin) Pty Ltd
PL 12W*	46.25		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 28	46.25		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 69	46.25		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 89	46.25		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 320*	46.25		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 30	75		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 512	69		N/A			Armour Energy (Surat Basin) Pty Ltd
PPL 3	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PPL 20	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PPL 63	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PPL 22	69		N/A			Armour Energy (Surat Basin) Pty Ltd
ATP 754	50		N/A			Armour Energy (Surat Basin) Pty Ltd
ATP 1190 (formerly ATP 471)*	50.64		N/A			Armour Energy (Surat Basin) Pty Ltd
ATP 1190 (Bainbilla block)*	24.75		N/A			Armour Energy (Surat Basin) Pty Ltd

* Refers to interests that are beneficially held.

armour energy

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	Notes	2016 $	2015 $
Revenue	2(a)	80,881	97,803
Other income	2(b)	72,688	17,237
Revenue and other income		**153,569**	**115,040**
Administration and consulting expenses		(1,582,944)	(2,036,291)
Depreciation		(425,659)	(61,924)
Employee benefits expenses		(1,523,102)	(1,382,532)
Exploration expenditure written off		(6,809,881)	(150,338)
Legal expenses		(1,304,551)	(86,340)
Finance costs		(1,634,801)	(326)
Share based payments		(277,130)	(616,827)
Takeover defence		(1,125,549)	-
New business development		(1,625,576)	-
Acquisition and divestment		(583,959)	-
Maintenance		(130,479)	-
Restoration & Abandonment		561,382	-
Oil and Gas operating costs		(3,105,277)	-
Loss before income tax	3	**(19,413,957)**	**(4,219,538)**
Income tax (expense)/ benefit	4	540,030	(2,355,536)
Loss for the year		**(18,873,927)**	**(6,575,074)**
Other comprehensive income			
Item that may be reclassified to profit or loss			
Changes in the fair value of available-for-sale financial assets		(2,125,000)	(2,236,000)
Income tax on items that may be reclassified to profit or loss		637,500	670,800
Other comprehensive income for the year, net of tax		**(1,487,500)**	**(1,565,200)**
Total comprehensive income for the year		**(20,361,427)**	**(8,140,274)**
		Cents	**Cents**
Basic earnings per share	7	(6.0)	(2.2)
Diluted earnings per share	7	(6.0)	(2.2)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

armour energy

Consolidated statement of financial position as at 30 June 2016

	Notes	2016 $	2015 $
Current assets			
Cash and cash equivalents	8	183,401	8,533,160
Trade and other receivables	9	269,850	191,672
Inventories	10	961,695	-
Other current assets	11	454,106	272,682
Total current assets		**1,869,052**	**8,997,514**
Non-current assets			
Other financial assets	12	9,991,696	5,241,972
Exploration and evaluation	14	48,715,448	55,156,524
Property, plant and equipment	13	64,199	116,393
Oil and Gas assets	15	17,147,690	-
Total non-current assets		**75,919,033**	**60,514,889**
Total assets		**77,788,085**	**69,512,403**
Current liabilities			
Trade and other payables	17	4,533,194	898,025
Borrowings	18	12,872,618	-
Provisions	19	109,934	74,379
Other current liabilities		178,806	-
Total current liabilities		**17,694,552**	**972,404**
Non-current liabilities			
Deferred tax liabilities	4	-	1,177,530
Provisions	19	9,261,340	-
Total non-current liabilities		**9,261,340**	**1,177,530**
Total liabilities		**26,955,892**	**2,149,934**
Net assets		**50,832,193**	**67,362,469**
Equity			
Issued Capital	20	87,435,000	83,880,979
Reserves	22	(638,474)	571,896
Retained earnings/ (accumulated losses)		(35,964,333)	(17,090,406)
Total equity attributable to owners of Armour Energy Ltd		**50,832,193**	**67,362,469**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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Consolidated statement of changes in equity for the year ended 30 June 2016

	Issued Capital	Retained earnings	Financial Assets Revaluation Reserve	Performance Shares Reserve	Performance Rights Reserve	Option Reserve	Total equity
Balance at 1 July 2014	**83,709,877**	**(10,515,332)**	**(1,244,600)**	**125,000**	**125,000**	**2,514,869**	**74,714,814**
Loss for the year	-	(6,575,074)	-	-	-	-	(6,575,074)
Other comprehensive income	-	-	(1,565,200)	-	-	-	(1,565,200)
Total comprehensive income for the year	**-**	**(6,575,074)**	**(1,565,200)**	**-**	**-**	**-**	**(8,140,274)**
Shares issued during the year	176,751	-	-	-	-	-	176,751
Share issue costs	(8,070)	-	-	-	-	-	(8,070)
Recognition of deferred tax assets relating to share issue costs	2,421	-	-	-	-	-	2,421
Share based payments	-	-	-	-	-	616,827	616,827
Balance at 30 June 2015	**83,880,979**	**(17,090,406)**	**(2,809,800)**	**125,000**	**125,000**	**3,131,696**	**67,362,469**
Loss for the year	-	(18,873,927)	-	-	-	-	(18,873,927)
Other comprehensive income	-	-	(1,487,500)	-	-	-	(1,487,500)
Total comprehensive income for the year	**-**	**(18,873,927)**	**(1,487,500)**	**-**	**-**	**-**	**(20,361,427)**
Share based payments	-	-	-	-	-	277,130	277,130
Shares issued during the year	3,555,675	-	-	-	-	-	3,555,675
Share issue costs	(1,654)	-	-	-	-	-	(1,654)
Balance at 30 June 2016	**87,435,000**	**(35,964,333)**	**(4,297,300)**	**125,000**	**125,000**	**3,408,826**	**50,832,193**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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Consolidated statement of cash flows for the year ended 30 June 2016

	Notes	2016 $	2015 $
Cash flows from operating activities			
Payments to suppliers and employees		(7,726,765)	(3,088,582)
Interest paid		(819,111)	(326)
Interest received		80,881	101,461
Fuel Tax Credits		-	3,453
Other income		72,688	48,211
Net cash (outflow) from operating activities	**23(a)**	**(8,392,307)**	**(2,935,783)**
Cash flows from investing activities			
Payments for property, plant and equipment		(2,051)	(8,009)
Receipts of (payments for) security deposits		(12,744,237)	(68,935)
Reduction in security deposits		6,048,319	-
Payments for exploration and evaluation assets		(1,739,355)	(4,315,515)
Payments for Oil and Gas assets		(8,627,182)	-
Research and Development funds in relation to exploration assets		1,366,478	9,394,531
Net cash (outflow) inflow from investing activities		**(15,698,028)**	**5,002,072**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		3,514,462	-
Proceeds from borrowings		18,276,087	-
Transaction costs on the issue of shares		(1,654)	(8,070)
Repayment of borrowings		(6,048,319)	-
Net cash inflow (outflow) from financing activities		**15,740,576**	**(8,070)**
Net (decrease) increase in cash and cash equivalents		(8,349,759)	2,058,219
Cash and cash equivalents at the beginning of the financial year		8,533,160	6,474,941
Cash and cash equivalents at end of year	**8**	**183,401**	**8,533,160**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

armour energy

1 Summary of significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Armour Energy Ltd and its subsidiaries.

Corporate Information

The financial report of the Group for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 30 September 2016.

Armour Energy Ltd is a public company limited by shares incorporated and domiciled in Australia. The Group's registered office is located at Level 27, 111 Eagle Street, Brisbane, QLD 4000.

The nature of the operations and principal activities of the Group are described in the directors' report.

Basis of preparation

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit consolidated entity for financial reporting purposes under Australian Accounting Standards.

The financial report covers Armour Energy Ltd and its subsidiaries, and is presented in Australian dollars.

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of Armour Energy Ltd comply with International Financial Reporting Standards (IFRS).

Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business.

For the year ended 30 June 2016, the Group generated a consolidated loss of $18,873,927 and incurred operating cash outflows of $8,392,307. As at 30 June 2016 the Group had cash and cash equivalents of $183,401, net current liabilities of $15,825,500, and net assets of $50,832,193.

The ability of the Group to continue as a going concern is dependent upon the Group being able to manage its liquidity requirements by taking some or all of the following actions:

(1) Raising additional capital or securing other forms of financing, as and when necessary to meet the levels of expenditure required to meet the Group's working capital requirements;
(2) Conversion to equity or other longer term debt, of amounts payable to DGR Global Limited, Directors and other related parties;
(3) Reducing its level of capital expenditure through farm-outs and/or joint ventures;
(4) Reducing its working capital expenditure;
(5) Applying for eligible Research and Development tax refund receipts;
(6) Generating cash flows from Oil and Gas assets; and
(7) Disposing of non-core assets.

These conditions give rise to a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Notwithstanding the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis after having regard to the following matters:

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1 Summary of significant accounting policies (continued)

Basis of preparation (continued)

(1) On 1 September 2016 the Company finalised the resale of 40,063,785 Armour Energy shares which has realised proceeds of approximately $3.05 million. The shares were acquired by a number of institutional and sophisticated investors including existing shareholders of the Company; and

(2) The Group is currently reviewing a number of strategic and funding opportunities of which the terms and conditions are in the process of being finalised.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amount and classification of liabilities that might be required should the Group not be able to achieve the matters set out above and thus be able to continue as a going concern.

Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report.

Accounting Policies

(a) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2015:

Reference	Title	Application date of standard	Application date for the Group
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	1 July 2015	1 July 2015
AASB 2015-5	Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exception	1 July 2015	1 July 2015

The adoption of the above standards and interpretations did not have any material impact on the current or any prior period and is not likely to materially affect future periods.

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2016. The Group is yet to evaluate the impact of those standards and interpretations on the financial statements.

The Group anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information of new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

1 Summary of significant accounting policies (continued)

(a) New Accounting Standards and Interpretations (continued)

Reference	Title	Application date of standard	Application date for the Group
AASB 14	Regulatory deferral accounts	1 January 2016	1 July 2016
AASB 2014-3	Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	1 January 2016	1 July 2016
AASB 2014-9	Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements	1 January 2016	1 July 2016
AASB 2014-10	Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016	1 July 2016
AASB 15	Revenue from Contracts with Customers	1 January 2017	1 July 2017
AASB 2015-1	Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012 - 2014 Cycle	1 January 2016	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016	1 July 2016
AASB 16	Leases	1 January 2018	1 July 2018

(b) Basis of consolidation

Subsidiaries

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity in the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in the profit or loss.

(c) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

1 Summary of significant accounting policies (continued)

(c) Business combinations (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured.

(d) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This may include start-up operations which are yet to earn revenues.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(e) Cash and cash equivalents

For the consolidated Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(f) Trade and other receivables

Receivables, generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Inventories and consumables

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour, and an appropriate proportion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

The cost of production stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs related to production activities.

Consumables comprise drilling and production consumables that are valued at cost on a first in first out basis.

1 Summary of significant accounting policies (continued)

(h) Financial instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Group becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within time frames established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Classification and Subsequent Measurement

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) Financial liabilities
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

(iii) Financial assets at fair value through other comprehensive income
Equity investments are classified as being at fair value through Other Comprehensive Income. After initial recognition at fair value (being cost) the Group has elected to present in Other Comprehensive Income changes in the fair value of equity instrument investments.

Unrealised gains and losses on investments are recognised in the financial assets revaluation reserve until the investment is sold or otherwise disposed of, at which time the cumulative gain or loss is transferred to retained earnings.

The Group derecognises an investment when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 9. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the financial assets revaluation reserve to profits appropriation reserve.

(iv) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as non-current assets until the consolidated entity makes a decision to sell. These assets are measured at fair value with gains or losses recognised in the profit or loss.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value of all other financial assets and liabilities, where appropriate, including recent arm's length transactions, reference to similar instruments and option pricing models.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other revenue when the Group's right to receive payments is established (see note 12) and as long as they represent a return on investment.

1 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other income or other expenses in the income statement as applicable. Interest income from these financial assets is included in the net gains/(losses). Dividend income is presented as other revenue.

Details on how the fair value of financial instruments is determined are disclosed in note 12.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Group no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit of loss.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined from available information such as quoted market prices or by calculating the net present value of future anticipated cash flows. In estimating these cash flows, management makes judgments about a counter-party's financial situation and the net realisable value of any underlying collateral. Impairment losses are recognised in the profit or loss.

Where there is objective evidence that an available for sale financial asset is impaired (such as a significant or prolonged decline in the fair value of an available for sale financial asset), the cumulative loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When a subsequent event reduces the impairment of an available for sale debt security the impairment loss is reversed through profit or loss. When a subsequent event reduces the impairment of an available for sale equity instrument the fair value increased is recognised in other comprehensive income.

Impairment losses on assets measured at amortised cost using the effective interest rate method are calculated by comparing the carrying value of the asset with the present value of estimated future cash flows at the original effective interest rate.

(i) Property, plant and equipment

Property, plant & equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant & equipment constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate portion of fixed and variable costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial year in which they are incurred.

Depreciation

The depreciable amount of all property, plant & equipment is depreciated over their useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of Property, plant & equipment	*Depreciation*
Motor Vehicles	20% Straight line
Office Equipment	20% - 33.3% Straight line
Plant and Equipment	20% Straight line
Oil and Gas assets	3.33% - 33.33% Diminishing Value

1 Summary of significant accounting policies (continued)

(i) Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(j) Exploration and evaluation assets

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

A provision is raised against exploration and evaluation expenditure where the Directors are of the opinion that the carried forward net cost may not be recoverable or the right of tenure in the area lapses. The increase in the provision is charged against the results for the year. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Costs of site restoration are provided over the life of the area from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that restoration will be completed within one year of abandoning the site. As the Group is in early stage exploration and site disturbance is minimal, no provision has been recorded.

(k) Impairment of assets

At each reporting date, the Group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(l) Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition.

1 Summary of significant accounting policies (continued)

(m) Provisions and employee benefits

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wages and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows

(ii) Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they were incurred.

(n) Leases

Leases of property, plant & equipment where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the year.

Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

1 Summary of significant accounting policies (continued)

(o) Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

(p) Share based payments

The Group may provide benefits to Directors, employees or consultants in the form of share-based payment transactions, whereby services may be undertaken in exchange for shares or options over shares ("equity-settled transactions").

The fair value of shares and options granted to Directors, employees and consultants is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the recipients become unconditionally entitled to the instruments. For options, fair value is determined using a Black-Scholes option pricing model.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(q) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(r) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

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1 Summary of significant accounting policies (continued)

(r) Revenue (continued)

Interest

Interest revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

(s) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates expected to apply to the period when the asset is realised or liability is settled based on tax rates (and laws) that have been enacted or substantially enacted by the reporting date.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences and unused tax losses can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Current and deferred tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.

1 Summary of significant accounting policies (continued)

(t) Goods and Services Tax (GST) (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(u) Earnings per share

Basic earnings per share is calculated as net profit (loss) attributable to owners of the Armour Energy Ltd, adjusted to exclude any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the year, adjusted for any bonus element.

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:

- The after tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(v) Comparatives

When required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(w) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates - impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Where applicable, value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Key judgements - exploration & evaluation assets

The Group performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. These reviews are based on detailed surveys and analysis of drilling results performed to balance date.

The Directors have assessed that for the exploration and evaluation assets recognised at 30 June 2016, the facts and circumstances suggest that the carrying amount of the Victorian assets in joint venture with Lakes Oil may exceed its recoverable amount. In considering this the Directors have had regard to the facts and circumstances that indicate a need for impairment as noted in Accounting Standard AASB 6 “Exploration for and Evaluation of Mineral Resources”.

Exploration and evaluation assets at 30 June 2016 were $48,715,448 (2015: $55,156,524).

Key judgements - deferred tax assets

In determining the recoverability of the recognised deferred tax assets, management has assessed that it will be utilised through eligible expenditure under the research and development grant. To the extent that the Group does not have sufficient eligible expenditure the ability to utilise the net deferred tax assets could be impacted.

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1 Summary of significant accounting policies (continued)

(w) Critical accounting estimates and judgements (continued)

Key judgements - Business Combination

The acquisition of the Kincora Gas Plant and related infrastructure has been deemed an acquisition of a business, rather than an acquisition of assets, having regard to the inputs and processes acquired which are necessary to the recommencement of mining activities. Several inputs and processes were not acquired, however they been determined to be readily replaceable in the current market as evidenced by the Company's ability to recommence activities within several months of transaction completion.

On this basis the rules of AASB 3 Business Combinations have been applied to the acquisition. The remaining assets in the exploration and development phase were deemed to be asset acquisitions on the basis that there were insufficient inputs and processes acquired to qualify as a business.

2 Revenue and other income

	2016 $	2015 $
(a) Interest revenue from:		
- Deposits held with financial institutions	80,840	83,638
- Australian Taxation Office	41	3,065
- Lakes Oil Convertible Notes	-	11,100
Total interest revenue	**80,881**	**97,803**
(b) Other Income:		
- Change in fair value on investments	-	2,220
- Fuel Tax Credit	-	3,453
- Government Grants	-	11,564
- Insurance Recovery	72,586	-
- Profit or Loss on sale of fixed assets	102	-
Total Other Income	**72,688**	**17,237**

3 Profit / (Loss)

Included in the profit / (loss) are the following specific expenses:

	2016 $	2015 $
Finance cost		
- Interest expense	**3,024**	326
- Financing fees	**1,536,286**	-
- Unwinding of provision for contingent consideration	**95,491**	-
Depreciation		
- Office equipment	**8,136**	16,157
- Motor vehicle	**28,176**	28,175
- Plant and equipment	**17,933**	17,592
- Oil and Gas assets	**371,414**	
Defined contribution superannuation expense	**137,459**	138,360
(Gain)/ loss on foreign exchange	**(160,109)**	(38,815)

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4 Income tax expense

	2016 $	2015 $
(a) Component of income tax expense (benefit)		
Income tax expense (benefit) is made up of:		
Attributable to prior periods	99,203	-
Current tax	-	-
Deferred tax	(639,233)	2,355,536
	(540,030)	2,355,536
Components of tax expense on other comprehensive income comprise:		
Deferred tax	637,500	670,800
	637,500	670,800

(b) The prima facie tax on profit/ (loss) before income tax is reconciled to the income tax expense as follows:

Prima facie tax on profit / (loss) before income tax at 30% (2015: 30%)	(5,824,187)	(1,265,861)
Add tax effect of:		
Deferred tax utilised following R&D cash back	500,789	3,444,661
Expenses not deductible for tax purposes	-	2,498
Other items	5,308	(10,810)
Share based payments	95,503	185,048
Tax losses not recognised	4,333,138	-
Foreign exploration costs	418,631	-
Prior year over/ (under)	99,203	-
	(371,615)	2,355,536
Less tax effect of:		
Permanent differences	(168,415)	-
Income tax expense/ (benefit)	(540,030)	2,355,536
Amounts recognised directly in equity		
Net deferred tax - debited (credited) directly to equity	-	(2,421)

(c) Reconciliation of Net deferred tax

2016	Opening Balance $	Net charged to income $	Net charged to other comprehensive income $	Net charged to equity $	Net charged to goodwill (business combination) $	Closing balance $
Deferred tax asset						
Carried forward losses	14,256,261	(1,766,256)	-	-	-	12,490,005
Accruals/ provisions	114,746	15,907	-	-	5,100	135,753
Property, Plant & Equipment	13,082	-	-	-	-	13,082
Capital raising costs through P&L	77,470	244,715	-	-	-	322,185
Capital raising costs in equity	424,365	(422,474)	-	-	-	1,891
Provision for rehabilitation	-	(312,135)	-	-	1,378,837	1,066,702
Available for sale financial assets	135,600	183,418	637,500	-	-	956,518
Potential benefit at 30%	**15,021,524**	**(2,056,825)**	**637,500**	**-**	**1,383,937**	**14,986,136**
Deferred tax liability						
Exploration & Evaluation assets	(16,199,054)	2,284,763	-	-	-	(13,914,291)
Oil & Gas assets	-	312,092	-	-	(1,383,937)	(1,071,845)
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Potential benefit at 30%	**(16,199,054)**	**2,596,855**	**-**	**-**	**(1,383,937)**	**(14,986,136)**
Net deferred tax	**(1,177,530)**	**540,030**	**637,500**	**-**	**-**	**-**

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4 Income tax expense (continued)

2015	Opening Balance	Net charged to income	Net charged to other comprehensive income	Net charged to equity	Net movement on unwind/ transfer	Closing balance
	$	$	$	$	$	$
Deferred tax asset						
Carried forward losses	17,796,195	(3,981,854)	-	-	441,920	14,256,261
Accruals/ provisions	84,133	30,613	-	-	-	114,746
Property, Plant & Equipment	9,631	3,451	-	-	-	13,082
Capital raising costs through P&L	66,722	10,748	-	-	-	77,470
Capital raising costs in equity	863,864	-	-	2,421	(441,920)	424,365
Available for sale financial assets	(469,200)	(66)	670,800	-	(65,934)	135,600
Potential benefit at 30%	**18,351,345**	**(3,937,108)**	**670,800**	**2,421**	**(65,934)**	**15,021,524**
Deferred tax liability						
Exploration & Evaluation	(17,780,626)	1,581,572	-	-	-	(16,199,054)
Financial assets at fair value through profit or loss	(65,934)	-	-	-	65,934	-
Potential benefit at 30%	**(17,846,560)**	**1,581,572**	**-**	**-**	**65,934**	**(16,199,054)**
Net deferred tax	**504,785**	**(2,355,536)**	**670,800**	**2,421**	**-**	**(1,177,530)**

In order to recoup carried forward losses in future periods, either the Continuity of Ownership Test (COT) or Same Business Test (SBT) must be passed. The majority of losses are carried forward at 30 June 2016 under COT.

Deferred tax assets which have not been recognised as an asset, will only be obtained if:

(iii) The Group derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;

(iv) The Group continues to comply with the conditions for deductibility imposed by the law; and

(v) No changes in tax legislation adversely affect the Group in realising the losses.

(d) Petroleum Resource Rent Tax

On 19 March, 2012, the Australian Government passed through the Senate, the Petroleum Resource Rent Tax Act 2012, with application to certain profits arising from petroleum extracted in Australia. In broad terms, the tax is imposed on a project-by-project basis. This tax applies to upstream mining operations only, and the effective rate of Petroleum Resource Rent Tax is 22.5%. This tax is considered to be an “income tax” for the purposes of AASB 112. Certain transition measures are contained in the legislation which can give rise to deductions in future years by adopting fair value, for Petroleum Resource Rent Tax purposes. Affected entities had until 31 December 2013, to exercise an election to adopt fair value as opposed to cost, in determining their future deductions. The Group is not in the production phase yet and is currently below the taxable threshold. Accordingly, the Group has not exercised its election, nor have fair value modelling and valuations been performed.

5 Dividends and franking credits

There were no dividends paid or recommended during the year or since the end of the year (2015: nil). There are no franking credits available to shareholders of Armour Energy Ltd (2015: nil).

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6 Remuneration of auditors

BDO Audit Pty Ltd

	2016 $	2015 $
Audit services		
Audit and review of financial statements	47,500	49,500
Other assurance services		
Independent expert report	126,174	-
Independent review of DGR Finance Facility	4,000	-
Independent review of AEP Farm-Out transaction	55,027	-
Independent reviews of Surat Basin acquisition	40,207	-
	272,908	**49,500**

7 Earnings per share

(a) Earnings

	2016 $	2015 $
Earnings used to calculate basic and diluted EPS (After tax)	(18,873,927)	(6,575,074)

(b) Weighted average number of shares and options

	2016 Number	2015 Number
Weighted average number of ordinary shares outstanding during the year, used in calculating basic earnings per share	316,209,848	302,638,859
Weighted average number of dilutive options outstanding during the year	-	-
Weighted average number of ordinary and potential ordinary shares outstanding during the year, used in calculating diluted earnings per share	**316,209,848**	**302,638,859**

Options are not considered dilutive as they are currently out of the money. Options may become dilutive in the future.

8 Cash and cash equivalents

	2016 $	2015 $
Current assets		
Cash at bank and in hand	175,637	8,533,160
Other cash and cash equivalents	7,764	-
	183,401	8,533,160

9 Trade and other receivables

	2016 $	2015 $
Trade receivables	56,012	5,996
GST Receivable	95,782	178,141
Other receivables	118,056	7,535
	269,850	**191,672**

Receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. No impairment loss has been recorded for the current and previous financial year.

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9 Trade and other receivables (continued)

Due to the short term nature of these receivables, their carrying value is assumed to approximate fair value. The maximum exposure to credit risk is the carrying value of receivables. Collateral is not held as security, and the receivables are not exposed to foreign exchange risk. No receivables were past due or impaired at 30 June 2016 (2015: nil).

10 Inventories

	2016 $	2015 $
Oil and Gas inventory		
Gas inventory	944,085	-
Materials and consumables	17,610	
	961,695	**-**

11 Other current assets

	2016 $	2015 $
Prepayments	454,106	272,682
	454,106	**272,682**

12 Other financial assets

	2016 $	2015 $
Security deposits	1,179,522	989,972
Australian listed shares	2,127,000	4,252,000
Financial Assurances	6,685,174	-
	9,991,696	**5,241,972**
Movements in financial assets at fair value through Profit or Loss		
Opening balance at 1 July	-	441,780
Fair value adjustments through Profit or Loss	-	2,220
Conversion into shares accounted for as available for sale financial assets	-	(444,000)
	-	**-**

Financial assets at fair value through Profit or Loss comprise investments in Convertible Notes of Lakes Oil NL.

Movements in financial assets at fair value through other comprehensive income		
Opening balance at 1 July	4,252,000	6,044,000
Additions on conversion of convertible notes to shares at fair value through other comprehensive income	-	444,000
Fair value adjustments through other comprehensive income	(2,125,000)	(2,236,000)
	2,127,000	**4,252,000**

Financial assets at fair value through other comprehensive income comprise investments in the ordinary capital of Lakes Oil NL and Aus Tin Mining Limited, listed on the Australian Securities Exchange.

Refer to note 26 (e) for fair value disclosures.

Classification of assets at fair value through Other Comprehensive Income

For equity securities that are not held for trading, the Group has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss. These securities are presented separately in the statement of consolidated statement of financial position.

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13 Property, plant and equipment

	2016 $	2015 $
Plant and equipment		
Gross value	89,664	89,664
Accumulated depreciation	(54,354)	(36,421)
	35,310	53,243
Motor Vehicles		
Gross value	140,878	140,878
Accumulated depreciation	(116,939)	(88,763)
	23,939	52,115
Office Equipment		
Gross value	59,689	59,230
Accumulated depreciation	(54,739)	(48,195)
	4,950	11,035
Total written down value	**64,199**	**116,393**

Reconciliation of carrying amounts at the beginning and end of the year

	Plant and equipment $	Motor vehicles $	Office Equipment $	Total $
Year ended 30 June 2016				
Opening net book amount	53,243	52,115	11,035	116,393
Additions	-	-	2,299	2,299
Disposals	-	-	(248)	(248)
Depreciation charge	(17,933)	(28,176)	(8,136)	(54,245)
Closing net book amount	35,310	23,939	4,950	64,199

	Plant and equipment $	Motor vehicles $	Office Equipment $	Total $
Year ended 30 June 2015				
Opening net book amount	65,730	80,290	24,289	170,309
Additions	5,105	-	3,014	8,119
Disposals	-	-	(111)	(111)
Depreciation charge	(17,592)	(28,175)	(16,157)	(61,924)
Closing net book amount	53,243	52,115	11,035	116,393

14 Exploration and evaluation assets

	2016 $	2015 $
Exploration and evaluation assets	48,715,448	55,156,524
Movements in carrying amounts		
Balance at the beginning of the year	55,156,524	60,428,432
Additions	1,735,283	4,272,961
Research & Development grants relating to exploration	(1,366,478)	(9,394,531)
Exploration expenditure written off	(64,610)	(150,338)
	55,460,719	55,156,524
Provision for impairment	(6,745,271)	-
Balance at the end of the year	**48,715,448**	**55,156,524**

14 Exploration and evaluation assets (continued)

	2016 $	2015 $
Movements in provision for impairment amounts		
Balance at the beginning of the year	-	-
Provisions (raised)/ released	(6,745,271)	-
Provision for impairment at the end of the year	**(6,745,271)**	**-**

Provision for Impairment of Exploration and Evaluation assets

On 30 August 2016, the Victorian Government announced a permanent ban on the exploration and development of all onshore unconventional gas in Victoria, including hydraulic fracturing and coal seam gas.

The Government also plans to legislate an extension of the current moratorium on the exploration and development of conventional onshore gas until 30 June 2020, with hydraulic fracturing to remain banned. During this time, the Government will undertake extensive scientific, technical and environmental studies on the risks, benefits and impacts of onshore gas.

Following this announcement, the Group carried out an impairment review of the Victorian exploration and evaluation assets, and as a result, an impairment loss was recognised in the profit or loss.

15 Oil and gas assets

	2016 $	2015 $
Oil and Gas assets		
Cost	17,154,778	-
Accumulated Depreciation	(371,414)	-
	16,783,364	-
Development assets		
Cost	364,326	-
	17,147,690	-
Movements in carrying amounts		
Balance at the beginning of the year	-	-
Additions	17,519,104	-
Depreciation charge	(371,414)	-
	17,147,690	**-**

16 Acquisition of oil and gas assets

On 1 September 2015 Armour Energy (Surat Basin) Pty Ltd, a subsidiary of Armour Energy Ltd, entered into agreements to acquire the interests in the assets tabled below from Oil Investments Pty Ltd (Origin). The tabled assets comprise the Kincora Gas Plant and adjoining lands, which will provide the gas, LPG and condensate processing and gas compression facilities for the Surat Basin project.

Asset	Interest
PL 14	100%
PL 53	100%
PL 511 (formerly PL 174)	100%
PL 227	100%
PPL 3	100%
PPL 20	100%
PPL 63	100%
Newstead Gas Storage	100%
Kincora Gas Plant Terminal (all plant & equipment)	100%
Kincora Utilities (all plant & equipment)	100%
Kincora Paddock (all plant & equipment)	100%

16 Acquisition of oil and gas assets (continued)

Asset	Interest
Gas Satellite Field Kit	100%
PL 28	46.25%
PL 69	46.25%
PL 89	46.25%
PL 320 (formerly PL 10W)	46.25%
PL 11W	46.25%
PL 12W	46.25%
PL 11 Snake Creek Exclusion Zone	25%
PL 21	87.5%
PL 22	87.5%
PL 27	87.5%
PL 71	90%
PL 264	90%
ATP 1190 (formerly ATP 471)	50.64%
PL 30	75%
PL 512 (formerly PL 74)	69%
PPL 22	69%
PL 71 (exploration)	72%
ATP 647 (Block 2656)	50%
ATP 754	50%
ATP 1190 (Bainbilla) (formerly ATP 471)	24.748%

The combined agreements totalled a purchase price of $10 million plus $3 million deferred consideration, contingent on first gas. The acquisition has been separated into two components being a business combination, and an asset acquisition in accordance with the provisions set out in AASB 3 Business Combinations. The total consideration to date is $10,925,764 of which $7,703,278 was in relation to the Business Combination comprising the Kincora Gas Plant and related infrastructure, and $3,222,486 was in relation to other oil and gas investments in the exploration and development phases.

Details of the acquisition, broken into the respective accounting treatments are as follows:

(a) Business Combination: Kincora Gas Plant and Related Infrastructure

	Fair Value $
Inventory	944,085
Oil and gas assets	11,372,316
Provision for employee benefits	(17,000)
Provision for rehabilitation and abandonment	(4,596,123)
Goodwill	-
Net assets required	7,703,278
Representing:	
Cash paid or payable to the vendor	5,141,151
Contingent consideration	2,562,127
Total consideration paid or payable	**7,703,278**
Acquisition costs expensed to profit or loss:	1,068,899

(b) Asset Acquisition: Oil and Gas interests

	Cost $
Other current assets	181,818
Oil and gas assets	5,609,649
Provision for rehabilitation and abandonment	(2,568,981)
Net assets required	3,222,486
Representing:	
Cash paid or payable to the vendor	**3,222,486**

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16 Acquisition of oil and gas assets (continued)

(c) Contingent Consideration

There is a deferred and contingent consideration element to the business combination transaction. This element consists of three $1m payments to be made on the 1st, 2nd and 3rd anniversary of first gas from any of the assets acquired under the business combination. There are no minimum gas sales quantities specified in the transaction.

On the strength of the 2.3 PJ of sales gas acquired as at the transaction date, it is fully anticipated that the Group will be required to pay to Origin the deferred and contingent consideration. As a result, from the Group's perspective, the consideration is considered deferred as opposed to contingent.

(d) Provision for rehabilitation

The Group assumed the liability for the future rehabilitation of all assets within the acquisition. The fair value of the rehabilitation liability has been assessed by independent environmental consultants, and for the purposes of provisional accounting, has been accounted for as at the transaction date. The rehabilitation liability in subsequent reporting periods will be determined by calculating the present value of expected future cash outflows, using an appropriate discount rate in accordance with standard market practice.

(e) Other current assets

The other current asset represents a cash deposit paid in relation to "Sale and Purchase Agreement 6" (SPA6). This agreement was subject to a number of conditions precedent, which were satisfied subsequent to 30 June. On 31 August 2016, the remaining balance of $1,818,182 was paid to the vendor.

17 Trade and other payables

	2016 $	2015 $
Current liabilities		
Trade payables	4,006,518	335,306
Accrued expenses	526,676	562,719
	4,533,194	**898,025**

Trade payables are non-interest bearing and are generally on 30-60 days terms. Due to the short-term nature of these payables, their carrying value is assumed to approximate fair value.

18 Current liabilities - borrowings

	2016 $	2015 $
Secured		
DGR Loan Facility	12,872,618	-

	2016 $	2015 $
Movements in carrying amounts		
Opening balance at 1 July	-	-
Principal	18,276,087	-
Repayments	(6,048,319)	
Capitalised interest	644,850	
Balance at 30 June	**12,872,618**	**-**

(a) Security disclosures

The DGR Loan Facility is secured by a first ranking security and mortgage over unsecured Surat Basin Assets and a fixed and floating charge over the assets of Armour Energy Ltd and subsidiaries and the assets of those subsidiaries.

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18 Current liabilities - borrowings (continued)

(b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 26.

19 Provisions

	2016 $	2015 $
Current Provisions		
Employee Benefits	**109,934**	**74,379**
Non-current Provisions		
Restoration and Abandonment	6,603,722	-
Contingent consideration	2,657,618	-
	9,261,340	-
Movements in carrying amounts		
Employee Benefits		
Opening balance at 1 July	74,379	53,828
Additional provisions	131,948	126,215
Amounts used	(96,393)	(105,664)
Unused amounts reversed	-	-
Balance at 30 June	**109,934**	**74,379**
Restoration and Abandonment		
Opening balance at 1 July	-	-
Provision recognised from the acquisition of Oil and Gas Assets	7,165,104	-
Revaluation of provision	(561,382)	-
Balance at 30 June	**6,603,722**	**-**
Contingent consideration		
Opening balance at 1 July	-	-
Provision recognised from acquisition of Oil and Gas Assets	2,562,127	-
Increase in the discounted amount arising due to time and the effect of any change in the discount rate	95,491	-
Balance at 30 June	**2,657,618**	**-**

Provision for Employee Benefits

Provision for employee benefits represents amounts accrued for annual leave.

This current provision includes the total amount accrued for annual leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer settlement of these amounts in the event employees wish to use their leave entitlement.

Provision for Restoration and Abandonment

A provision has been recognised for the costs to be incurred for the restoration and abandonment of the Surat Basin processing plant and associated exploration and production fields, used for the production of oil, gas, LPG and condensate. It is anticipated that the sites will require restoration in approximately 26 years. The value of the provision will be assessed at each reporting period and revaluations made when required.

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19 Provisions (continued)

Provision for Contingent Consideration

There is a deferred and contingent consideration element to the business combination portion of the acquisition of Oil and Gas Assets (refer to note 16). This element consists of three $1m payments to be made on the 1st, 2nd and 3rd anniversary of first gas from any of the assets acquired under the business combination. There are no minimum gas sales quantities specified in the transaction.

On the strength of the 2.3PJ of sales gas acquired at the transaction date, it is fully anticipated that the Group will be required to pay to Origin the deferred and contingent consideration. At each reporting period, the provision is increased to adjust for the discounted amount arising due to time and the effect of any change in the discount rate.

20 Issued capital

(a) Issued and paid up capital

	2016 $	2015 $
322,858,077 (2015:303,828,057) ordinary shares fully paid	93,089,975	89,534,300
Share issue costs	(7,539,345)	(7,537,691)
Recognition of deferred tax asset relating to share issue costs	1,884,370	1,884,370
	87,435,000	**83,880,979**

Ordinary shares participate in dividends and the proceeds on winding up of Armour Energy Ltd. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on show of hands.

(b) Movements in ordinary share capital

Details	Number of shares	$
Balance at 1 July 2014	301,390,240	83,709,877
Shares issued under employment contracts ($0.154 per share, net of share issue costs - 18/07/14) [1]	308,856	46,051
Shares issued under employment contracts ($0.085 per share, net of share issue costs - 02/10/14) [1]	484,857	39,599
Shares issued under employment contracts ($0.059 per share, net of share issue costs - 22/12/14) [1]	337,572	18,162
Shares issued under employment contracts ($0.047 per share, net of share issue costs - 14/01/15) [1]	579,553	25,625
Shares issued under employment contracts ($0.056 per share, net of share issue costs - 02/04/15) [1]	726,979	39,244
Recognition of deferred tax asset relating to share issue costs	-	2,421
Balance 30 June 2015	**303,828,057**	**83,880,979**
Shares issued under employment contracts ($0.051 per share, net of share issue costs - 10/07/15) [1]	807,709	39,559
Shares issued for cash ($0.20 per share - 04/11/15)	16,922,311	3,384,462
Exercise of options ($0.10 per share - 05/02/16)	1,300,000	130,000
Balance 30 June 2016	**322,858,077**	**87,435,000**

[1] The Group's Management agreed for 20 per cent of their base remuneration to be paid by way of shares in Armour Energy Ltd. The shares were issued in advance, based on the preceeding 20-day VWAP. This arrangement was applicable for a limited time and is subject to Board approval each quarter.

20 Issued capital (continued)

(c) Options

As at 30 June 2016, there were 23,510,000 unissued ordinary shares of Armour Energy Ltd under option, held as follows:

- 1,250,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 50 cents. The options vest over a 6, 18 and 30 month period, and expire commencing 2 September 2016 to 26 August 2018.
- 1,250,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 75 cents. The options vest over a 6, 18 and 30 month period, and expire commencing 24 July 2018 to 26 August 2018.
- 1,250,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 1 dollar. The options vest over a 6, 18 and 30 month period, and expire commencing 24 July 2018 to 26 August 2018.
- 3,110,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 26 cents. The options vested immediately on grant, and expire 25 February 2017.
- 2,400,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2015) at an exercise price of 20 cents. The options vested immediately on grant, and expire 6 February 2017.
- 1,200,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2015) at an exercise price of 30 cents. The options vested immediately on grant, and expire 6 February 2018.
- 4,350,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2016) at an exercise price of 20 cents. One third of the options vest at each anniversary of grant, and expire 29 March 2021.
- 4,350,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2016) at an exercise price of 35 cents. One third of the options vest at each anniversary of grant, and expire 29 March 2021.
- 4,350,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2016) at an exercise price of 50 cents. One third of the options vest at each anniversary of grant, and expire 29 March 2021.

(d) Performance Shares

As at 30 June 2016 there was nil Performance Shares of Armour Energy Ltd on issue (2015: nil).

(e) Performance Rights

As at 30 June 2016 there was nil Performance Rights of Armour Energy Ltd on issue (2015: nil).

(f) Capital risk management

Management controls the capital of the Group in order to provide capital growth to shareholders and ensure the Group can fund its operations and continue as a going concern. The Group's capital comprises equity as shown on the consolidated statement of financial position.

There are no externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risk and adjusting its capital structure in response to changes in these risks and the market. These responses include the management of share issues. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

21 Share-based payments

(a) Types of share-based payment plans

Employee Option Plan (ESOP)

Share options are granted to employees. The employee share option plan is designed to align participants' interests with those of shareholders by increasing the value of the Armour Energy Ltd's shares.

When a participant ceases employment prior to the vesting of their share options, the share options are forfeited after 90 days unless cessation of employment is due to termination for cause, whereupon they are forfeited immediately or death. The Group prohibits KMP's from entering into arrangements to protect the value of unvested ESOP awards.

The contractual life of each option granted is generally three (3) years. There are no cash settlement alternatives.

Each option can be exercised from vesting date to expiry date for one share with the exercise price payable in cash.

(b) Summaries of Share-based Payment Plans

Summary of employee share options granted

The following table illustrates the number (no.) and weighted average exercise prices (WAEP) of, and movements in, share based payment share options granted during the year under the employee share option plan:

	2016 WAEP	2016 No.	2015 WAEP	2015 No.
Outstanding at the beginning of the year	0.63	20,480,000	$0.55	38,930,000
Granted during the year	0.35	13,050,000	$0.18	6,000,000
Exercised during the year	0.10	(1,300,000)	-	-
Forfeited during the year	0.75	(7,620,000)	-	-
Expired during the year	0.10	(1,100,000)	$0.50	(24,450,000)
Outstanding at the end of the year	0.38	23,510,000	$0.63	20,480,000
Exercisable at the end of the year	**0.43**	**10,460,000**	**$0.57**	**16,730,000**

In 2016, the Armour Energy Ltd issued a total of 13,050,000 share options to employees under the employee share option plan. Details of issues are below.

- 4,350,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2016) at an exercise price of 20 cents. One third of the options vest on each anniversary of grant and expire 29 March 2021.
- 4,350,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2016) at an exercise price of 35 cents. One third of the options vest on each anniversary of grant and expire 29 March 2021.
- 4,350,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2016) at an exercise price of 50 cents. One third of the options vest on each anniversary of grant and expire 29 March 2021.

(c) Summary of Performance Shares granted

The following table illustrates the number (no.) of, and movements in, performance shares on issue during the year:

	2016 No.	2015 No.
Balance at the beginning of the year	-	625,000
Expired during the year	-	(625,000)
Outstanding at the end of the year	-	-

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21 Share-based payments (continued)

(d) Summary of Performance Rights granted

The following table illustrates the number (no.) of, and movements in, performance shares on issue during the year:

	2016 No.	2015 No.
Balance at the beginning of the year	-	625,000
Expired during the year	-	(625,000)
Outstanding at the end of the year	-	-

(e) Share Based Payment Pricing Model

The fair value of the equity settled share-based payments granted (including ESOP) is estimated using a Black-Scholes options pricing model taking into account the terms and conditions upon which the instruments were granted.

The following table details the inputs to the models used for the years ended 30 June 2016 and 2015:

	2016	2015
Employee share options		
Weighted average exercise price	$0.35	$0.18
Weighted average life of the option	5.00 years	1.80 years
Underlying share price	$0.08	$0.066
Expected share price volatility	124.770%	85.441%
Risk free interest rate	1.81%	1.94%
Number of options issued	13,050,000	6,000,000
Value (Black-Scholes) per option	$0.055 - $0.064	$0.013 - $0.15
Total value of options issued	**$778,935**	**$80,723**

22 Reserves: nature and purpose

(a) Share-Option Reserve, Performance Shares Reserve and Performance Rights Reserve

The share option reserve, performance shares reserve and performance rights reserve (collectively “share based payments”) is used to recognise the grant date fair value of share based payments issued to employee and other service providers.

(b) Financial Assets Revaluation Reserve

The Group has elected to recognise changes in the fair value of certain investments in equity securities in other comprehensive income. These changes are accumulated in a separate reserve within equity. The entity does not have any policy on transferring amounts from this reserve to another reserve or to retained earnings when the relevant equity securities are sold.

	2016 $	2015 $
Balance 1 July	(2,809,800)	(1,244,600)
Revaluation - gross	(2,125,000)	(2,236,000)
Deferred tax	637,500	670,800
Balance 30 June	**(4,297,300)**	**(2,809,800)**

23 Cash flow information

(a) Reconciliation of profit after income tax to net cash inflow from operating activities

	2016 $	2015 $
Profit (Loss) after income tax	(18,873,927)	(6,575,074)
Share based payments	277,130	792,207
Depreciation and amortisation	425,659	61,924
Change in FV on investments through Profit or Loss	-	(2,220)
Exploration expenditure written off/ impaired	6,809,881	150,338
Financing fees capitalised to loan	644,850	-
Employee benefits settled in shares	42,572	-
Change in operating assets and liabilities*		
(Increase) decrease in trade and other receivables	(110,521)	(31,585)
(Increase) decrease in other current assets	6,500	25,758
(Increase) decrease in deferred tax assets	(540,030)	2,355,536
Increase (decrease) in trade and other payables	3,391,470	266,782
(Decrease) increase in provisions	(465,891)	20,551
Net cash inflow (outflow) from operating activities	**(8,392,307)**	**(2,935,783)**

*Net of amounts relating to exploration and evaluation assets.

Equity settled share based payment transactions are disclosed in note 21. Apart from the above, there are no other non-cash financing and investing activities to disclose.

24 Related party transactions

(a) Ultimate Parent

Armour Energy Ltd is the ultimate legal parent of the Group, and listed on the ASX on 26 April 2012.

(b) Key Management Personnel

Details relating to key management personnel, including remuneration paid are detailed in the Remuneration Report, and summarised below:

	2016 $	2015 $
Short term benefits	1,023,749	947,077
Post employment	80,166	84,726
Share based payments	260,936	721,928
	1,364,851	**1,753,731**

(c) Transactions with Related Parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Related Party		Sales to related parties	Purchases from related parties	Other transactions with related parties
DGR Global Ltd (i)	2016	-	456,000	-
	2015	-	476,000	-

24 Related party transactions (continued)

(c) Transactions with Related Parties (continued)

(i) The Group has a commercial arrangement with DGR Global Ltd for the provision of various services, whereby DGR Global provides resources and services including the provision of its administration staff, its premises (for the purposes of conducting the Group's business operations), use of existing office furniture, equipment and certain stationery, together with general telephone, reception and other office facilities (''Services''). In consideration for the provision of the Services, the Group pays DGR Global a monthly management fee of $38,000 (2015: $40,000). For the year ended 30 June 2016 $456,000 (2015: $476,000) was paid or payable to DGR Global Ltd for the provision of the Services. The total amount outstanding at year end was $142,506 (2015: $49,261).

The outstanding balances at each relevant year end are unsecured, interest free and settlement occurs in cash.

(d) Loans from Related Parties

The Group entered into a short-term, debt finance facility from DGR Global for the acquisition of the Surat Basin Assets of Origin Energy. The DGR Global facility is available to the Group until 31 December 2016 (the termination date), and is fully secured at an interest rate of 15 per cent per annum. No such loans existed at any time during the previous financial year ending 30 June 2015. The transactions associated with the financing facility are detailed below.

Transaction	Paid	Capitalised	Payable
DGR Finance Facility			
Interest	451,856	644,850	75,349
Loan establishment fee	172,727	-	-

25 Capital commitments

(a) Future Exploration Commitments

The Group has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Group. The commitments are as follows:

	2016 $	2015 $
Less than 12 months	27,043,899	36,342,167
Between 12 months and 5 years	35,699,876	19,425,833
	62,743,775	**55,768,000**

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Group has the option to negotiate new terms or relinquish the tenements. The Group also has the ability to meet expenditure requirements by joint venture or farm-in agreements.

26 Financial risk management

(a) General Objectives, Policies and Processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

The Group's financial instruments consist mainly of deposits with banks, receivables and payables.

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26 Financial risk management (continued)

(a) General Objectives, Policies and Processes (continued)

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

(b) Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Group. The Group's objective is to minimise the risk of loss from credit risk exposure.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance data to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk is reviewed regularly by the Board. It arises from exposure to receivables as well as through deposits with financial institutions. There is no collateral held as security.

The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group and at balance date.

The Group's cash at bank is spread across multiple Australian financial institutions to mitigate credit risk, such as Macquarie Bank (local currency short term rating A-1), ANZ (local currency short term rating A-1+) and Westpac (local currency short term rating A-1+).

(c) Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet financial obligations as they fall due. The objective of managing liquidity risk is to ensure, as far as possible, that the Group will always have sufficient liquidity to meets its liabilities when they fall due, under both normal and stressed conditions.

Liquidity risk is reviewed regularly by the Board.

All financial liabilities are due within 12 months.

The Group manages liquidity risk by monitoring forecast cash flows and liquidity ratios such as working capital. The Group had financing facilities available at balance date, as detailed below.

(i) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2016 $	2015 $
Fixed rate		
DGR loan facility	79,063	-

The DGR Global facility is secured by a first ranking security and mortgage over unsecured Surat Basin Assets and a fixed and floating charge over the assets of the Group. The DGR Global facility is available until 30 September 2016 (the termination date). The interest rate is 15 per cent per annum.

(d) Market risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments and investments in listed securities. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). The Group does not have any material exposure to market risk other than interest rate risk and price risk on available for sale financial assets.

26 Financial risk management (continued)

(d) Market risk (continued)

Interest rate risk

Interest rate risk arises principally from cash and cash equivalents. The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters while optimising the return.

For further details on interest rate risk refer to the tables below:

2016	Floating interest rate $	Fixed interest rate $	Non-interest bearing $	Total carrying amount $	Weighted average effective interest rate %
(i) Financial assets					
Cash and cash equivalents	183,401	-	-	183,401	0.95
Trade and other receivables	-	-	269,850	269,850	-
Available for sale financial assets	-	-	2,127,000	2,127,000	-
Security Deposits	-	-	7,864,696	7,864,696	-
Total financial assets	**183,401**	**-**	**10,261,546**	**10,444,947**	**0.95**
(ii) Financial liabilities					
Trade and other payables	-	-	(4,533,195)	(4,533,195)	-
Borrowings	-	12,872,618	-	12,872,618	15.00
Total financial liabilities	**-**	**12,872,618**	**(4,533,195)**	**8,339,423**	**15.00**

2015	Floating interest rate $	Fixed interest rate $	Non-Interest bearing $	Total carrying amount $	Weighted average effective interest rate %
(i) Financial assets					
Cash and cash equivalents	8,533,160	-	-	8,533,160	1.53
Trade and other receivables	-	-	191,672	191,672	-
Available for sale financial assets	-	-	4,252,000	4,252,000	-
Security Deposits	-	-	989,972	989,972	-
Total financial assets	**8,533,160**	**-**	**5,433,644**	**13,966,804**	**1.53**
(ii) Financial liabilities					
Trade and other payables	-	-	(898,025)	(898,025)	-
Total financial liabilities	**-**	**-**	**(898,025)**	**(898,025)**	**-**

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk. This demonstrates the effect on the profit and equity which could result from a change in these risks.

At 30 June 2016 the effect on profit and equity as a result of changes in the interest rate at that date would be as follows:

	2016 $	2015 $
Change in profit and equity		
- Increase in interest rate by 1%	1,834	85,332
- Decrease in interest rate by 1%	(1,834)	(85,332)

26 Financial risk management (continued)

(e) Fair Value

The fair values of financial assets and liabilities approximate their carrying amounts principally due to their short-term nature or the fact that they are measured and recognised at fair value.

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 30 June 2016.

	Level 1 $	Level 2 $	Level 3 $	Total $
2016				
Available for sale financial asset	2,127,000	-	-	2,127,000
2015				
Available for sale financial asset	4,252,000	-	-	4,252,000

Available for sale financial assets and investments at fair value through profit or loss are measured based on quoted securities.

27 Operating segments

The Group has identified its operating segment based on the internal reports that are reviewed and used by the Board (chief operating decision makers) in assessing performance and determining the allocation of resources. The Group is managed primarily on a geographic basis, which is the location of the respective areas of interest (tenements) in Queensland and the Northern Territory, Australia. Operating segments are determined on the basis of financial information reported to the Board.

During the year ended 30 June 2016, the Group acquired oil and gas production facilities in Queensland which will generate products from which it will derive an income. While there has been no production activity during the financial year, going forward management identifies the Group as having two reportable segments, being exploration for shale oil and gas in Australia, and the production of oil, gas, LPG and condensate in the Surat Basin, Queensland, and will report on those segments accordingly.

The chief decision makes review the financial performance of the Group on a monthly basis. The accounting policies adopted for internal reporting to the chief operating decision makers are consistent with those adopted in the financial statements.

28 Contingent assets and liabilities

(a) Contingent liabilities

(i) Exploration Liabilities - Armour Energy Limited

Under the Company's native title agreement over EP 171 and EP 176, the Company is required to pay the greater of either $10,000 or 3% of exploration costs on each anniversary date.

Under the Company's native title agreement over EP 174, EP 190, EP 191 and EP 192, the Company is required to pay the greater of either $5,000 or 3% of exploration costs on each anniversary date.

Under the Company's native title agreement over ATP 1087, the Company is required to pay the greater of either $50,000, or:

- 3% of exploration costs within the preceding financial year; and
- 1.5% of the exploration costs incurred in the Shared Area within the preceding financial year.

Other than the above, the Group had no other contingent assets or liabilities at 30 June 2016.

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29 Controlled entities

Controlled Entities	Country of Incorporation	Principal Activity	Principal Place of Business	Percentage Owned 2016	Percentage Owned 2015
Parent Entity:					
Armour Energy Limited	Australia	Petroleum Exploration	Northern Australia	100%	100%
Subsidiaries of Armour Energy:					
Ripple Resources Pty Ltd	Australia	Mineral Exploration	Northern Australia	100%	100%
Armour Energy (Victoria) Pty Ltd	Australia	Petroleum Exploration	Victoria	100%	100%
Armour Energy (Surat Basin) Pty Ltd	Australia	Oil and gas production	Queensland	100%	100%

30 Parent company

The Corporations Act requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by Regulation 2M.3.01 which requires the following limited disclosure in regard to the parent entity (Armour Energy Ltd). The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the accounting policy described in Note .

	2016 $	2015 $
Statement of Financial Position		
Current assets	505,460	8,991,079
Non-current assets	69,852,859	60,659,486
	70,358,319	69,650,565
Current liabilities	16,116,327	947,374
Non-current liabilities	-	1,177,530
	16,116,327	2,124,904
Net Assets	**54,241,992**	**67,525,660**
Issued capital	87,434,990	83,880,979
Available-for-sale financial assets	(4,297,300)	(2,809,800)
Option reserve	3,408,826	3,131,696
Performance shares	125,000	125,000
Performance Options	125,000	125,000
Retained earnings	(32,554,512)	(16,927,215)
Total shareholders' equity	**54,242,004**	**67,525,660**
Profit or loss for the year	**(15,627,306)**	**(6,414,640)**
Total comprehensive income	**(17,752,306)**	**(7,979,840)**

(b) Guarantees entered into by the parent entity

No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

(c) Contractual commitments

There were no contractual commitments for the acquisition of property, plant and equipment entered into by the parent entity at 30 June 2016 (2015: nil).

(d) Contingent liabilities

The parent entity has no contingent liabilities, other than those disclosed in note 28.

31 Subsequent events

DGR Global Loan Facility

On 28 September 2016, Armour Energy Ltd announced that further to its previous announcements of 31 March, 31 May 2016 and 29 July, it has secured an extension of the DGR Global Loan Facility to 31 December 2016 (the new termination date). This three month extension has been agreed by DGR on the current terms of the facility which is secured and has an interest rate of 15 per cent per annum. All other key terms of the DGR Global Loan Facility remain as previously advised.

American Energy Global Partners Australia

As announced on 15 July and 18 August 2016 in relation to the proceedings instituted by AEGP Australia Pty Ltd (AEGP) in the Supreme Court of Queensland, Armour advised that the Supreme Court delivered a judgment in favour of Armour ordering that the Farm-Out Agreement should be specifically performed.

Following the death of AEGP Director and US affiliate American Energy Partners (AEP) founder, Chairman and CEO Aubrey McClendon on March 2nd 2016, AEGP found itself in a position which rendered it incapable of performing of its obligations pursuant to the Supreme Court judgment.

A wholly owned subsidiary of AEGP, AEGPAS Pty Ltd (AEGPAS) held 40,063,785 shares in Armour Energy Ltd. Given the uncertainty of the outcome of further pursuit of performance by AEGP, Armour agreed to acquire AEGPAS from AEGP at no cost in settlement of AEGP's obligations to Armour. AEGP also surrendered its right to earn up to a 75% interest in Armour's Northern Territory tenements, allowing Armour to retain a 100% interest in these assets.

Accordingly, Armour and AEGP agreed to the termination of the Farm-out Agreement. AEGP acquired the shares as a result of subscription to 16.9 million Armour Energy Ltd shares at 20c per share and also as a result of the proportional take-over bid at 25c per share for a further 23.1 million shares. This equated to a total expenditure of approximately $9 million by AEGP in relation to the Shares.

Resale of Armour shares

On 1 September 2016 the Company finalised the resale of 40,063,785 Armour Energy shares, following the settlement with AEGP. The resale realised proceeds of approximately $3.05 million. The shares were acquired by a number of institutional and sophisticated investors including existing shareholders of the Company.

Victorian assets in Joint Venture with Lakes Oil NL

On 30 August 2016, the Victorian Government announced a permanent ban on the exploration and development of all onshore unconventional gas in Victoria, including hydraulic fracturing and coal seam gas. The Government also plans to legislate an extension of the current moratorium on the exploration and development of conventional onshore gas until 30 June 2020, with hydraulic fracturing to remain banned. During this time, the Government will undertake extensive scientific, technical and environmental studies on the risks, benefits and impacts of onshore gas.

Following this announcement, the Group carried out an impairment review of the Victorian exploration and evaluation assets, and as a result, an impairment loss was recognised in the profit or loss.

Apart from the above, the Directors are not aware of any other significant changes in the state of affairs of the Group after the balance date that is not covered in this report.

Directors' declaration

In accordance with a resolution of the Directors of Armour Energy Ltd, I state that:

(1) In the opinion of the Directors:

(a) The attached financial statements and notes of Armour Energy Ltd for the financial year ended 30 June 2016 are in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1;

(c) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

(d) The remuneration disclosures contained in the Remuneration Report comply with S300A of the Corporations Act 2001.

(2) The Directors have been given the declarations required to be made by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

On behalf of the board

Nicholas Mather
Executive Chairman

30 September 2016

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INDEPENDENT AUDITOR'S REPORT

To the members of Armour Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Armour Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Armour Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

BDO

Opinion

In our opinion:

(a) the financial report of Armour Energy Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through debt or equity, conversion to equity or longer term debt of amounts payable to related parties, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 28 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Armour Energy Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

BDO

T J Kendall
Director

Brisbane, 30 September 2016