

QUARTERLY ACTIVITIES REPORT

FOR THE PERIOD ENDED 31 MARCH 2017

ASX CODE: AJQ

SHARES ON ISSUE

336,015,972

CONVERTIBLE NOTES ON ISSUE

179,081,543

MARKET CAPITALISATION¹

\$26.9m (at 8 cents per share)

(1. undiluted for options and convertible notes)

DIRECTORS

Nicholas Mather (Chairman)

William Stubbs

Roland Sleeman

Stephen Bizzell

CHIEF EXECUTIVE

Roger Cressey

COMPANY SECRETARY

Karl Schlobohm

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HIGHLIGHTS

- **Kincora Project - restart program continues to advance.**
- **Kincora Project – Reserves upgraded following demonstration by Armour of the economic viability and commercialisation of the Project.**
- **Kincora Project – Pre-emptive rights acquisition re Santos’ interests in Armour-operated assets continues to progress**
- **Armour executes Connection Agreement to the Roma-Brisbane Pipeline with APA Group.**
- **Capital Raising Update – increase in raising initiatives to a revised total of \$50m to facilitate an accelerated ramp up of the Kincora project gas and liquids production and also provide funding towards other growth initiatives.**
- **Net oil production during the quarter of 3,339 bbls and revenue of approx \$186,000.**



PROJECT ACTIVITIES

Oil Production and Sales

Quarterly oil production from the Emu Apple field and facility are as follows:

	Oil production (bbl)	Oil sales (bbl)
Gross	3,339	3,050
Armour's 90% share	3,005	2,745

Table 1: Quarterly oil production and sales

Armour has entered into a Sale and Purchase Deed with Santos to acquire its interest in PL264 which includes the Emu Apple field and facility. On completion of the Sale and Purchase Deed, Armour's holding of Emu Apple will increase to 100%. Completion expected Q2 2017.

Connection Agreement with APA Group

On 6 March 2017 Armour announced that it had executed a Connection Agreement with APA Group that will provide access to the Roma Brisbane Pipeline at Wallumbilla. The execution of the connection agreement will allow Armour to supply gas to Australia Pacific LNG under the company's previously announced Gas Sales Agreement with them.

APA is a key gas transport provider servicing the east coast gas market. Armour's agreement with APA is for a 10 year term and provides a connection for up to a 30TJ/day gas flow rate into the Roma Brisbane Pipeline. This will provide Armour with access to the broader east coast gas market, including a wide range of industrial customers, wholesale customers, traders and other LNG producers further moving Armour to becoming a significant gas producer into the east coast gas market.

Pre-emptive Rights Acquisition re Santos' Interests in Armour-Operated Assets at the Kincora Project Continues to Progress

During the quarter Armour received Indicative Approval from the Queensland Government to transfer the Santos' share in five (5) petroleum leases to Armour, the leases being PLs 21, 22, 27, 71 and 264. On the completion of the transaction, Armour's holding in all but PL 71 will increase to 100% ownership. Armour is awaiting Indicative Approval regarding the remaining three (3) leases included in the pre-emptive rights acquisition which is expected to be obtained during Q2 2017; those leases being PLs 30 and 512, and PPL22.

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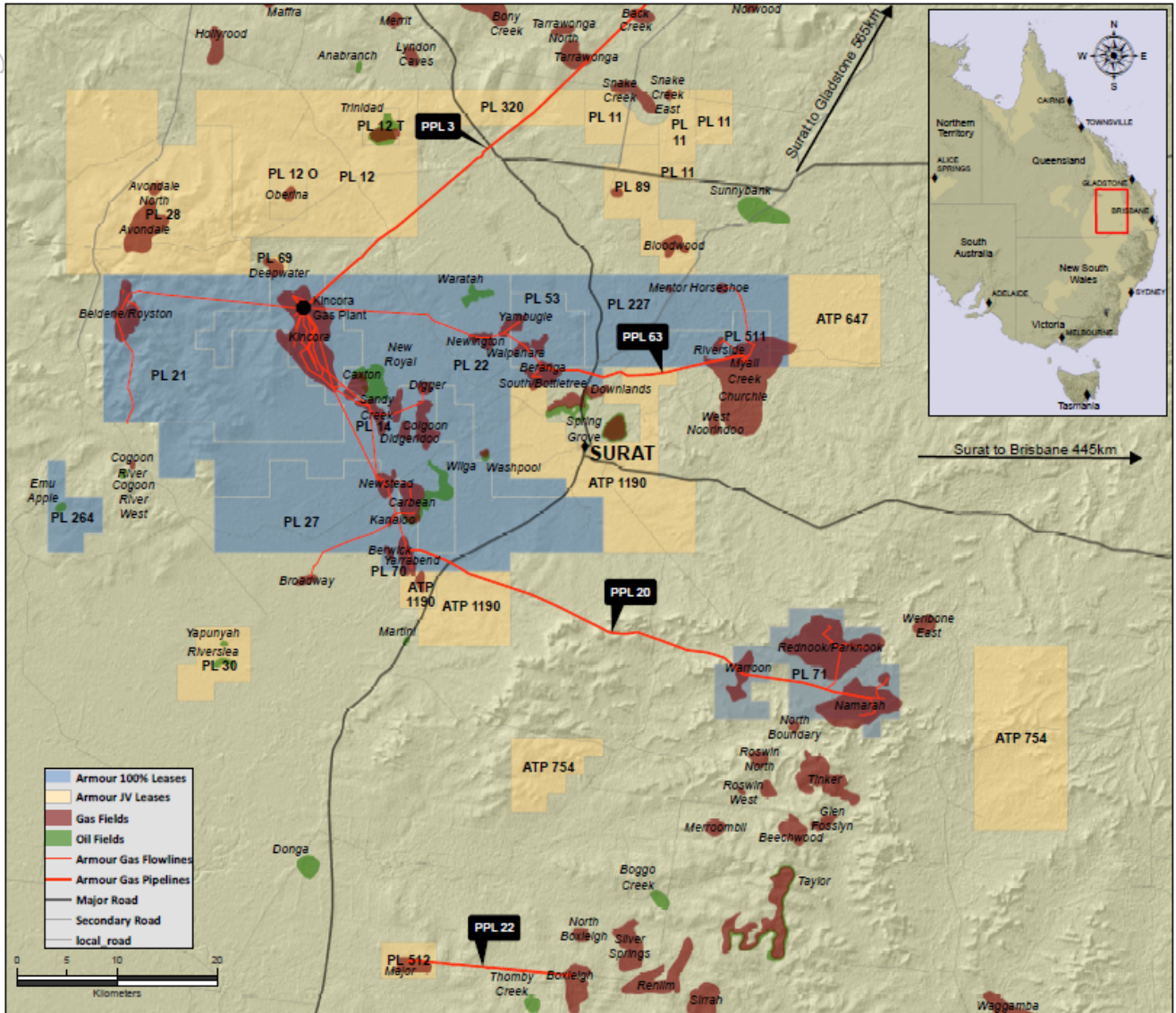


Figure 1: Map showing Armour's Kincora Project lease position after the expected completion of the Sale and Purchase Deed with Santos (blue shaded area)

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Table 2 shows the percentage holding that Armour will have after completion of the Sale and Purchase Deed with Santos. Figure 1 (above) shows a map indicating the Armour's Surat Basin leases including the 100% holdings post completion of the Sale and Purchase Deed.

Tenement	Field Name	Armour Operated	Armour Interest Prior to Pre-Empt	Armour Interest After Pre-Empt
PL 14	Kincora	*	100%	100%
PL 53	Kincora	*	100%	100%
PL 70	Kincora	*	100%	100%
PL 511 (formerly PL 174)	Kincora	*	100%	100%
PL 227	Horseshoe	*	100%	100%
PPL 3	n/a	*	100%	100%
PPL 20	n/a	*	100%	100%
PPL 63	n/a	*	100%	100%
Newstead Gas Storage	Newstead	*	100%	100%
PL 21 (see note)	Kincora	*	87.5%	100%
PL 22 (see note)	Kincora	*	87.5%	100%
PL 27 (see note)	Kincora	*	87.5%	100%
PL 71 (production) (see note)	Parknook	*	90.0%	100%
PL 264 (see note)	Emu Apple	*	90.0%	100%
PL 30 (see note)	Riverslea	*	75%	90%
PL 512 (formerly PL 74) (see note)	Major	*	69%	84%
PPL 22 (see note)	n/a	*	69%	84%
PL 71 (exploration) (see note)	Parknook	*	72%	80%
ATP 1190 (formerly ATP 471)	Weribone	*	50.64%	50.64%
ATP 754	ATP754	*	50%	50%
ATP 647 (Block 2656)	Myall Creek East		50%	50%
PL 28	Waldegrave		46.25%	46.25%
PL 69	Waldegrave		46.25%	46.25%
PL 89	Waldegrave		46.25%	46.25%
PL 320 (formerly PL 10W)	Waldegrave		46.25%	46.25%
PL 11W	Waldegrave		46.25%	46.25%
PL 12 W	Waldegrave		46.25%	46.25%
PL 11	Snake Creek East		25%	25%
ATP 1190 (formerly ATP 471)	Bainbilla		24.748%	24.748%

(Note: Leases the subject of the Sale and Purchase Deed with Santos.)

Table 2: Armour tenements at the Company's Kincora Project, Roma Shelf, Queensland

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Restart Program Advanced for the Kincora Project

During the quarter Armour continued its consolidated multi-phase Kincora restart program as previously advised to the market. Recent activities have included the tender and award of key restart works contracts.

The two-phase gas production restart program continues to be projected as follows:

- Phase 1** is the commencement of gas production (ie “the restart”), commissioning and then increase production rate to 9TJ per day (3.3PJs per annum) with production initially from the Newstead storage facility and then various wells across the fields that were last in operation by Origin in 2012. First gas production and commencement of gas sales is targeted to be achieved by June 2017, and the balance of the restart program (including commencement of associated liquids production) is planned to be completed by August/September 2017.
- Phase 2** will involve the drilling of new wells plus work-overs and stimulations of existing wells to achieve an increase in gas production to 20TJ per day (7.3PJs per annum) over a period of 12 to 18 months from first gas production. This production rate is 66% of the Kincora Gas Plant name plate capacity, and further production increase will be investigated to target 100% plant capacity. Associated liquids production from the project historically averaged 9,942 barrels of condensate per PJ of gas produced, and 2,066 tonnes of LPG per PJ of gas produced. Based on these historical production rates, at a gas production rate of 20TJ per day, liquids production is expected to reach 198 barrels of condensate and 41 tonnes of LPG per day in Phase 2. Projected condensate and LPG figures are based on the information contained in the Company’s ASX release of 19 July 2016.

The Key activities and their expected timing for the Kincora Project restart program are set out in Figure 1 below.

Target schedule	2Q16			3Q16			4Q16			1Q17			2Q17			3Q17			4Q17		
	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
1 Restart planning and estimate																					
2 Site preparation & Operational Readiness																					
3 Emu Apple Oil (inspections, tests, restart)																					
4 First Oil (despatch)																					
5 PPL3 IP run, data evaluation, Restart risk assessment, Connection agreement																					
6 PPL3 repairs																					
7 PPL3 end of line modifications																					
8 Phase 1 Restart - commence production and ramp-up to 9TJ/day																					
8.1 Restart of Newstead gas process stream																					
8.2 First Gas Sales - ex Newstead																					
8.3 Kincora Gas Plant - LPG system (restart)																					
8.4 Restart field production (restart existing 22 wells)																					
8.5 LPG & Condensate Production & Sales																					
9 Phase 2 Restart - ramp-up to 20TJ/day over next 12 to 18 months																					
9.1 Drill new wells, stimulate and workover existing wells																					ongoing...

Figure 1 – Kincora restart program

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Gas Marketing Strategy & Newstead Storage Facility

Armour has direct access to the Wallumbilla gas hub through its Kincora to Wallumbilla Pipeline (KWP) under Queensland Petroleum Pipeline Licence number 3 (PPL 3). As a result, Armour has access to the Australian east coast market, providing it with the opportunity to negotiate gas sales arrangements with a wide range of gas users across the market, including a range of industrial customers, wholesale customers, traders and LNG producers.

The Newstead storage facility currently holds approximately 2.3PJ of treated gas (sales quality) which is expected to require minimal re-processing (compression and dehydration) before sending to market at Wallumbilla. Newstead has a total capacity ~7.5PJs. The facility provides significant benefits through flexibility of operations plus commercial benefits through providing:

- back-up capacity when upstream production facilities experience both unplanned and planned shutdowns;
- capacity to store gas when prices are low, waiting for higher prices to maximise revenue;
- capacity to maximize sales opportunity during seasonal price cycle and trading activities, specifically sales into the peaking electricity market during the December to March period;
- opportunistic supply when spot cargoes for LNG and electricity producers experience price spikes.

Further, the injection and withdrawal rates can be improved through de-bottlenecking and augmentation, and Armour intends to commence detailed studies on this once gas sales has commenced.

Additional storage opportunities exist in a number of depleted reservoirs across the tenements. Armour will investigate the potential to create additional storage capacity from these depleted reservoirs.

Kincora Project Reserves Upgrade

On 3 April 2017 the Company announced a Reserves update on its operated Roma Shelf Assets, as part the Company's Kincora Project. The commercialisation of Armour's Kincora Project was reviewed and evaluated in accordance with the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PMRS) guidelines, resulting in a portion of the previously evaluated Contingent Resources being upgraded to Reserves as outlined in Table 3 on the next page.

The upgrade of a portion of Armour's Contingent Resources to Reserves follows demonstration by Armour of the economic viability and commercialisation of the Kincora Project. This demonstration included the execution of the Gas Sales Agreement with Australia Pacific LNG, the Connection Agreement with APA Group, plus Armour's ongoing progress on its capital raising program and its Kincora project restart plans.

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Reserves ⁽¹⁾	1P	2P (1P+2P)	3P (1P+2P+3P)
Estimated Net Total Gas (BCF)	30.16	53.86	149.56
Estimated Net Total Gas (PJ)	31.82	56.82	157.79
LPG Yield (Tonne)	65,706	117,338	325,828
Condensate Yield (BBL)	316,215	564,700	1,568,075

Table 3 – Armour Energy Bowen-Surat estimated aggregated quantities of petroleum reserves

Table 3 Notes:

- Petroleum reserves are classified according to SPE-PRMS.
- Petroleum reserves are stated on a risked net basis with historical production removed.
- Petroleum reserves are stated inclusive of previous reported estimates.
- Petroleum Reserves have no deduction applied for gas used to run the process plant estimated at 7%.
- BCF = billion cubic feet, LPG = liquefied petroleum gas, PJ = petajoules, kbbl = thousand barrels, kTonne = thousand tonnes; Conversion 1.055 PJ/BCF.
- 1P = Total Proved; 2P = Total Proved + Probable; 3P = Total Proved + Probable + Possible.
- LPG Yield 2065 tonnes/petajoules, Condensate Yield 9938 barrels/petajoules

CORPORATE ACTIVITIES

Capital Raising Program Increased to \$50m

On 26 April 2017 Armour announced an increase to its previously advised capital raising program, from \$40m to \$50m to fund the start-up of gas and liquids production from the Kincora project, the on-going development of the Kincora field assets, to refinance existing debt facilities, to fund other growth initiatives, and for general working capital purposes.

The \$10m proposed increase in the Convertible Notes issue is subject to obtaining of necessary shareholder and other approvals. A shareholder meeting will be convened shortly in this regard.

DGR Global, Armour Directors and Management, and new key Armour investor MH Carnegie & Co have all shown strong support for the range of capital raising initiatives. The additional funds to be raised will enable an accelerated ramp up of the Kincora project gas and liquids production and also provide funding towards other growth initiatives.

As previously announced by the company, as part of the capital raising initiatives, Armour will shortly undertake a pro-rata non-renounceable entitlement offer of ordinary shares to existing shareholders on a 1 for 6 entitlement basis at an issue price of 7.6c per share to raise approximately \$4.25 million (**Entitlement Offer**).

The Entitlement Offer will be fully underwritten by Bizzell Capital Partners Pty Ltd, an entity associated with Armour Director Stephen Bizzell.

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Further details with respect to the proposed Entitlement Offer including the offer timetable will be provided to shareholders in due course.



On behalf of the Board
Karl Schlobohm
Company Secretary

Competent Persons Statement

Consents

Reported resources are in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines and 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 20 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 consents to the inclusion of this information in this release.

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.

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.

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Previous reported information on the Contingent Resources in this release related to Armour Energy's Surat Basin PLs and ATPs is based on an independent review conducted by RISC Operations Pty Ltd (RISC) 2015 Independent Technical Specialist Report Roma Shelf dated 30 September 2015 and SRK Consulting (Australasia) Pty Ltd Myall Creek Contingent Resources Report PLs 227 and 511 (19 July 2016) and SRK Consulting (Australasia) Pty Ltd PL 71 Contingent Resources Report- Parknook, Namarah and Warroon area (19 July 2016) and Armour Energy Target Statement dated 7 October 2015 related to Armour Energy's Surat Basin PLs and ATPs is based on the Annexure A - Independent Expert Report review conducted by BDO Corporate Finance (QLD) Ltd and fairly represents the information and supporting documentation reviewed. All the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

Forward Looking Statement

This announcement 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.

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APPENDIX 1

INTERESTS IN TENEMENTS FOR THIS QUARTER

TYPE	LOCATION	NAME	OWNER	INTEREST
Acquired During Quarter				
N/A				
Relinquished During Quarter				
EPM 25410	Queensland	Bowthorn - Extended	Ripple Resources P/L	100%
EL 30943	Northern Territory	Calvert Hills	Ripple Resources P/L	100%
Held Throughout Quarter				
PL14	Queensland		AE (SB) P/L	100%
PL 53	Queensland		AE (SB) P/L	100%
PL70	Queensland		AE (SB) P/L	100%
PL 511	Queensland		AE (SB) P/L	100%
PL 227	Queensland		AE (SB) P/L	100%
PPL 3	Queensland		AE (SB) P/L	100%
PPL 20	Queensland		AE (SB) P/L	100%
PPL 63	Queensland		AE (SB) P/L	100%
PL 28	Queensland		AE (SB) P/L	46.25%
PL 69	Queensland		AE (SB) P/L	46.25%
PL 89	Queensland		AE (SB) P/L	46.25%
PL 320	Queensland		AE (SB) P/L	46.25%
PL 11W	Queensland		AE (SB) P/L	46.25%
PL 12W	Queensland		AE (SB) P/L	46.25%
PL 11(SCEE)	Queensland		AE (SB) P/L	25%
PL21	Queensland		AE (SB) P/L	87.5%
PL 22	Queensland		AE (SB) P/L	87.5%
PL 27	Queensland		AE (SB) P/L	87.5%
PL 71(P)	Queensland		AE (SB) P/L	90%
PL 71(E)	Queensland		AE (SB) P/L	72%
PL 264	Queensland		AE (SB) P/L	90%
PL 30	Queensland		AE (SB) P/L	75%
PL 512	Queensland		AE (SB) P/L	69%
PPL 22	Queensland		AE (SB) P/L	69%
ATP 647	Queensland		AE (SB) P/L	50%
ATP 754	Queensland		AE (SB) P/L	50%
ATP 1190	Queensland		AE (SB) P/L	50.64%
ATP1190(B)	Queensland		AE (SB) P/L	24.748%
EPP 171	Northern Territory	Abner Range	Armour Energy Ltd	100%
EPP 174	Northern Territory	Robinson River 2	Armour Energy Ltd	100%
EPP 176	Northern Territory	Ryans Bend	Armour Energy Ltd	100%

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TYPE	LOCATION	NAME	OWNER	INTEREST
Held Throughout Quarter				
EPP 190	Northern Territory	Calvert	Armour Energy Ltd	100%
EPP 191	Northern Territory	Wallhollow	Armour Energy Ltd	100%
EPP 192	Northern Territory	Wollogorang	Armour Energy Ltd	100%
EPM 19833	Queensland	Bowthorn	Ripple Resources P/L	100%
EPM 19835	Queensland	Shadforth East	Ripple Resources P/L	100%
EPM 19836	Queensland	Shadforth	Ripple Resources P/L	100%
EPM 25504	Queensland	Argyle Creek	Ripple Resources P/L	100%
EPM 25505	Queensland	Border	Ripple Resources P/L	100%
EPM 26018	Queensland	Kola South	Ripple Resources P/L	100%
EPM 26020	Queensland	Inca Creek	Ripple Resources P/L	100%
EPM 26022	Queensland	Yelvertoft	Ripple Resources P/L	100%
EPM 25802	Queensland	Walford East	Ripple Resources P/L	100%
EL 30810	Northern Territory	Sweetums	Ripple Resources P/L	100%
EL 30812	Northern Territory	Pepe the Prawn	Ripple Resources P/L	100%
EL 30813	Northern Territory	Camilla Chicken	Ripple Resources P/L	100%
EL 30817	Northern Territory	Birrindudu	Ripple Resources P/L	100%
EL 30818	Northern Territory	VRD	Ripple Resources P/L	100%
EL 30822	Northern Territory	Crazy Harry	Ripple Resources P/L	100%
EL 30823	Northern Territory	Scooter	Ripple Resources P/L	100%
EL 30836	Northern Territory	Western Creek	Ripple Resources P/L	100%
EL 30925	Northern Territory	Mt Lamb	Ripple Resources P/L	100%
EL 30926	Northern Territory	Alexandria	Ripple Resources P/L	100%
EL 30927	Northern Territory	Buchan Dam	Ripple Resources P/L	100%
EL 30736	Northern Territory	Vutron	Ripple Resources P/L	100%
EL 30737	Northern Territory	Collider	Ripple Resources P/L	100%
EL 30750	Northern Territory	Hyperion	Ripple Resources P/L	100%
EL 30751	Northern Territory	Carrington	Ripple Resources P/L	100%
EL 30752	Northern Territory	Acheron	Ripple Resources P/L	100%
EL 30753	Northern Territory	Mondegreen	Ripple Resources P/L	100%
EL 30076	Northern Territory	Kermit	Ripple Resources P/L	100%
EL 30078	Northern Territory	Fozzie	Ripple Resources P/L	100%
EL 30079	Northern Territory	Scooter	Ripple Resources P/L	100%
EL 30080	Northern Territory	Miss Piggy	Ripple Resources P/L	100%
EL 29837	Northern Territory	Catfish Hole	Ripple Resources P/L	100%
EL 29951	Northern Territory	Eric Cartmen	Ripple Resources P/L	100%
EL 29952	Northern Territory	Kenny McCormick	Ripple Resources P/L	100%
EL 29953	Northern Territory	Secret Treasure	Ripple Resources P/L	100%
EL 29954	Northern Territory	Kyle Broflovski	Ripple Resources P/L	100%
EL 29955	Northern Territory	Stan Marsh	Ripple Resources P/L	100%
EL 30494	Northern Territory	Statler & Waldorf	Ripple Resources P/L	100%
EL 30774	Northern Territory	Sam the Eagle	Ripple Resources P/L	100%

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TYPE	LOCATION	NAME	OWNER	INTEREST
Held Throughout Quarter				
EL 30775	Northern Territory	Floyd Pepper	Ripple Resources P/L	100%
EL 70776	Northern Territory	Dr. Teeth	Ripple Resources P/L	100%
ATP 1087	Queensland	South Nicholson	Armour Energy Ltd	100%
PEP 169	Victoria	Moreys	Lakes Oil NL	51%
PEP 166	Victoria	Holdgate	Lakes Oil NL	25%
PRL2	Victoria		Lakes Oil NL	15%

AE (SB) P/L = Armour Energy (Surat Basin) Pty Ltd

EPM	Exploration Permit - Minerals
EL	Exploration Licence
EPP	Exploration Permit - Petroleum
ATP	Authority to Prospect
PEP	Petroleum Exploration Permit
PL	Petroleum Lease
PPL	Petroleum Pipeline Licence
PRL	Petroleum Retention Lease

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