

ASX Announcement

30 May 2017

Capital Raising Update

Conditions Precedent Satisfied for M.H Carnegie & Co's Second Tranche of Convertible Notes Subscription

Noteholder and Note Trustee Approvals Obtained for \$10 million Increase in Convertible Note Issue Size to \$45 million

Highlights:

- Conditions Precedent for M.H Carnegie & Co's Second Tranche of Convertible Notes have now been satisfied triggering \$5.75 million of committed funds due for subscription by M.H. Carnegie & Co and also triggering a further approximately \$7 million due for subscription from other investors once any necessary shareholder approvals are obtained, giving a total of \$32.75 million in capital (\$19 million in Notes issued to date and \$1 million from the share placement already undertaken, plus the \$12.75 million subject to shareholder approval).
- Launch of previously announced 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 a further approximately \$4.25 million (Entitlement Offer) is expected to occur within the next month. The Entitlement Offer will be fully underwritten by Bizzell Capital Partners, an entity associated with Armour Director Stephen Bizzell.
- Approvals obtained from the requisite majority of existing Noteholders and from the Note Trustee for the Convertible Note issue size to be increased by up to \$10 million to up to \$45 million in Convertible Notes in total. The issue of further Convertible Notes is still subject to any necessary shareholder approvals.
- Extraordinary General Meeting of shareholders to be held on 31 May 2017 to obtain the necessary shareholder approvals for the further Convertible Notes issues.
- The additional funds referred to above to be raised via the increased Convertible Note issue size will enable an accelerated ramp-up of the Kincora project gas and liquids production and also provide funding towards other growth initiatives.

The Directors of Armour Energy Limited ("Armour" or "the Company"; ASX:AJQ) are pleased to provide an update on the progress of the Company's capital raising program further to the ASX announcements of 21 November 2016, 16 December 2016 and 26 April 2017.



The Convertible Note Issue, Entitlement Offer and Placement are part of the previously announced up to \$50 million capital raising program 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 provide funding towards other growth initiatives and for general working capital purposes.

Convertible Notes Issue – Satisfaction of Condition's Precedent and Approvals for Increase

The conditions precedent to M.H. Carnegie & Co's commitment to subscribe for an additional \$5.75 million worth of Convertible Notes as agreed with Armour have now been satisfied. Satisfaction of the same conditions precedent also now triggers a further approximately \$7 million worth of Convertible Note subscriptions being due from other investors pursuant to subscription agreements previously entered into once any necessary shareholder approvals are obtained. These further Convertible Note subscriptions are in addition to the \$19 million worth of Convertible Notes that have already been subscribed for to date. A total of \$31.75 million in Convertible Note proceeds and \$1 million in share placement funds have been raised and received to date.

Approval has also now been obtained from M.H. Carnegie & Co and other existing substantial Convertible Noteholders, representing the required 75% majority of Noteholders by value in accordance with the terms of the Convertible Note Deed, to allow an increase in the Convertible Note issue size to an overall total of \$45 million. Approval has also been obtained from the Convertible Note trustee, Perpetual Corporate Trust Limited, and other consequential required amendments to the Convertible Notes Trust Deed have been made.

The principal terms of the Convertible Notes remain as follows:

Issue Price:	Face value of \$0.11 per Convertible Note
Interest Rate:	15% per annum
Interest Payments:	Interest paid half yearly in arrears and the interest may be paid in certain circumstances at Armour's election by the issue of further Convertible Notes
Maturity Date:	30 September 2019
Conversion Terms:	Convertible at any time at the Convertible Note holder's election into one ordinary share in Armour subject to usual adjustment mechanisms in certain circumstances
Security:	The Convertible Notes will be secured over all assets of Armour and will have equal ranking security proportionally with the existing DGR Global Ltd Bridging Finance Facility

Further details of the Terms of Issue of the Convertible Notes were previously published in full and are available on the Company's website <http://www.armourenergy.com.au/investors/terms-of-convertible-notes>. As contained in the Convertible Notes Terms of Issue, M.H. Carnegie & Co has the right to early redemption of the funds they have subscribed for Convertible Notes in the event certain conditions are subsequently not met or are not waived by them. A number of these early redemption conditions have now been satisfied and others amended.

For personal use only



An Extraordinary General Meeting of shareholders is scheduled to be held on 31 May 2017 to seek approval of various remaining components of the capital raising program including for issue of Convertible Notes pursuant to the increased Convertible Note issue size.

Entitlement Offer and Placement

As previously announced, as part of the capital raising initiatives, Armour will also 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. Further details with respect to the proposed Entitlement Offer including the offer timetable are expected to be provided to shareholders within the next month.

As also previously advised, separate and distinct from the Entitlement Offer, the Company has undertaken a Placement to sophisticated and professional investors who are sub-underwriters of the Entitlement Offer (**Placement**). This Placement was recently completed and raised \$1,000,000 (before costs) via the issue of 13,157,895 ordinary shares at 7.6 cents per share.

Substantial Shareholder, Director & Management Support for the Capital Raising Program

Armour's largest shareholder, DGR Global Ltd, is strongly supporting the capital raising initiatives and has committed to subscribe for its pro-rata entitlement in the Entitlement Offer, has entered into a priority sub-underwriting agreement with respect to the Entitlement Offer, and has also already subscribed for \$9.4 million worth of Convertible Notes in partial repayment of the DGR Global Ltd Bridging Finance Facility.

All Armour Directors have committed to subscribe for their entitlements in the Entitlement Offer in full. Entities related to Armour Directors Nick Mather and Stephen Bizzell are also partially sub-underwriting the Entitlement Offer and have already subscribed for in aggregate \$1.5 million worth of Convertible Notes and committed to subscribe for up to a further \$1 million of Convertible Notes subject to obtaining shareholder approvals.

Funds managed by cornerstone investor in the capital raising program M.H. Carnegie & Co, are also partially sub-underwriting the Entitlement Offer and have exercised their right of first refusal to commit for a further \$750,000 worth of Convertible Notes taking their current subscribed and committed Convertible Notes participation to \$8.25 million contained in amounts to be subscribed pursuant to shareholder approval to be sought on 31 May 2017. M.H. Carnegie & Co also has an option to subscribe for an additional \$5 million worth of Convertible Notes by 31 July 2017.

Armour's management team have also shown strong support for the capital raising program with entities related to Armour's management team including the Acting CEO, CFO, Company Secretary and key operational management having subscribed for approximately \$500,000 worth of Convertible Notes in aggregate.

The Convertible Note issue, Placement and Entitlement Offer are being Lead Managed and arranged by Bizzell Capital Partners Pty Ltd.

For personal use only

Kincora Project Restart - Gas Production & Sales Program

Armour has recently engaged contractors for the Kincora Project Restart works as follows:

- The Kincora Restart Contract has been awarded to Wasco (Australia) Pty Ltd. The scope of work for Wasco includes the inspection, refurbishment as required, testing and re-start of the gas gathering pipelines, field compressor stations and the Kincora Gas Plant.
- The Kincora to Wallumbilla Pipeline end-of-line facilities relocation within the ML1A compound at Wallumbilla is being managed by Armour with OSD providing engineering and quality management services and local contractors are providing fabrication and construction services.

The restart works are being sequenced to meet the objectives of the Phase 1 production plan as described below.

Supply of gas from the Kincora Project to the east coast market is planned as follows:

- Phase 1 involves commencement of gas production (ie the restart), recommissioning of the gas processing and compression facilities and then increase of the gas production rate to an initial 9 TJ per day (3.3 PJs per annum). Gas production will initially be from the Newstead storage facility with various existing wells across the fields progressively brought back into operation. First gas production and commencement of gas sales delivering into the Australian Pacific LNG offtake agreement is targeted to be achieved by July 2017, and the balance of the restart program (including commencement of associated liquids production) is planned to be completed by September 2017.
- Phase 2 will involve shooting 3D seismic data and the drilling of 10 new wells plus workovers and stimulations of existing wells to achieve an increase in gas production to 20 TJ per day. Phase 2 will take place over a period of approximately 12 months from first gas production, and will take the total gas production rate to an estimated 70% of the Kincora Gas Plant name plate capacity. Subject to operational performance, further production increase will be pursued to achieve 100% plant capacity. Associated liquids production from the project historically averaged 9,942 barrels of condensate (a light oil) 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 20 TJ per day liquids production is expected to reach 198 barrels of condensate and 41 tonnes of LPG per day. 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.

For personal use only

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	█			█			█			█			█			█			█		

Figure 1 – Kincora restart program



On behalf of the board
 Karl Schlobohm
 Company Secretary

For further information contact:

Roger Cressey – Acting CEO
 07 – 3303 0620

Karl Schlobohm – Company Secretary
 07-3303 0661