Armour Energy Limited

13 September 2017

Project and Corporate Update

The Board of Directors of Armour Energy Limited ("Armour", or "the Company", ASX: AJQ) is pleased to provide updates on the following:

- progress towards the restart of gas production from the Company's Kincora Project;
- the Company's current capital raising program;
- Kanywataba Block tender, Uganda; and
- Executive appointments.

Kincora Project Gas Production Restart Program Update

The restart work at the Kincora Gas Plant and associated facilities is continuing to progress well with first gas still expected to be produced by the end of September 2017.

In the Company's ASX release of 17 August 2017, Armour advised that the restart work still to be completed on the pipeline from Kincora to Wallumbilla (PPL3) included laboratory testing of a sample of the steel from the last section of pipeline to ensure it was manufactured to legislative compliance. The Company advises that the testing has now been completed and analysis has confirmed that the pipeline meets legislative compliance, and no further remedial work is required on the pipeline.

The installation of the new end of line facility at Wallumbilla is also near completion and has been tied-in to PPL3. Armour is on track to restart its facilities to produce gas from the Newstead storage facility, through the dry gas circuit at the Kincora Gas Plant, through PPL3 and the end of line facility and deliver gas to market, subject to the satisfaction or waiver of a condition precedent by APLNG in relation to gas transportation arrangements,by the end of September 2017. Recent samples of gas from the Newstead storage facility were analysed and confirmed to be of sales quality, and it is anticipated that initially the stored gas will only need to be processed through the dry gas circuit. Gas to be produced from existing wells (and potentially Newstead stored gas) will be treated by the wet gas circuit (LPG circuit) at the Kincora Gas Plant. The restart work on the LPG circuit continues and is expected to be completed by December 2017. Production from existing wells is scheduled to commence on restart of the LPG circuit.

Planning for the drilling of new wells to target undeveloped reserves, and increase field gas production to have the Kincora plant operating at maximum capacity, is also continuing with drilling targeted to commence in first half of 2018.

Capital Raising Program Update

The Company continues to make good progress with respect to its previously announced $50 million capital raising program. Armour is pleased to advise that it has entered into a revised agreement with MH Carnegie & Co for funds managed by it to subscribe for an additional $5 million of convertible notes.

This subscription commitment is in addition to the $8.25 million worth of convertible notes already subscribed for by funds managed by MH Carnegie & Co and is subject to the following conditions being satisfied before 15 January 2018:

(a) Armour selling gas from the Kincora Project that has been processed through the Kincora gas plant including the LPG (wet gas) circuit and delivered through the PPL3 pipeline to the RBP; and

(b) Armour obtaining any necessary shareholder or other approvals that may be required to issue the convertible notes to MH Carnegie & Co.

The Company expects to be able to satisfy these conditions before the end of 2017.

Prior to this $5 million conditional commitment by MH Carnegie & Co, the Company has to date issued convertible notes with an aggregate value of $32.7 million out of the approved convertible note issue size of $45 million and has also completed a $1 million ordinary share placement.

The fully underwritten entitlement offer to raise a further $4.25 million will be launched forthwith, with full details to be contained in a separate ASX announcement.

Further details of the Terms of Issue of the Convertible Notes were previously published in full and are available on the Company's website https://www.armourenergy.com.au/terms-of-convertible-notes/

Uganda Update - Kanywataba Block

Armour has previously advised that it had been selected as the preferred tenderer on the Kanywataba Block offered by the Government of Uganda under their first licensing round. Armour has recently concluded negotiations with the Government of Uganda which should enable an exploration licence for the Kanywataba block to be granted to Armour in September 2017 subject to finalising bank guarantees and other administrative requirements.

The Kanywataba block is located at the southern end of Lake Albert in the Albertine Graben where approximately 115 wells have been drilled, and 101 wells encountered hydrocarbons delivering an 88% success rate on economic discoveries. To date, discoveries in the Albertine Graben total approximately 6.5 billion barrels of oil initially in place, with estimated recovery being 1.5 billion barrels and oil being light to medium gravity (30-35 API) with associated wet and dry gas. The Albertine Graben is a Rift Basin, a geological formation known to host a third of the world's oil reserves and similar geology to the Gippsland Basin in Victoria, Australia. The Albertine Graben is considered to provide world class reservoir qualities, multiple reservoirs and less than 40% of the Albertine Graben has been evaluated. Production licenses have been awarded to Total, Tullow and CNOOC on blocks to the north of the Kanyawataba block, on the east coast of Lake Albert. Armour considers the Kanywataba block to be a highly prospective oil play. Based on the Highly Prospective Oil Columns Kanywataba Block internal report dated 13 September 2017, Armour has assessed the prospectivity of the block and estimates low, best and high unrisked prospective oil resource to range from 646 to 969 MMBBLS of oil in place across 7 prospects each with stacked reserves. Armour considers the main resource risk to be potential loss of hydrocarbon charge, and on that basis considers prospects 2 and 3 to represent the most prospective targets.

Kanywataba Block	Unrisked Prospective Oil Resource Estimate (MMBLS)		
Prospect Number	Low	Best	High
Stacked 1	479	599	719
Stacked 2	86	107	128
Stacked 3	59	74	89
Stacked 4	1	2	2
Stacked 5	2	2	3
Stacked 6	13	16	19
Stacked 7	7	9	11
SUM ALL PROSPECTS	646	808	969

Cautionary Statement - The estimated quantities of petroleum that may potentially be recovered by the application of a 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.

Uncertainty in the resource estimate is captured as a range of values with different levels of confidence being achieved and in this instance a probabilistic aggregation of all the estimated prospects in the Kanywataba Block into a Low-Best-High estimation category. Chance of success is a function of geological parameters including source, migration, reservoir, trap and seal. Chance of commerciality is a function of technical and commercial parameters, volume discovered, future development and operating costs, production profiles, markets, prices and economics.

A crude oil export pipeline is under construction from the Hoima District (centrally located in the Ugandan oil discoveries region) to the port of Tanga in Tanzania with completion targeted in 2020. Also, the Government of Uganda is negotiating the construction of a refinery to provide petroleum products for Uganda and its regional neighbours.

The exploration licence will be for a 2 year period and subject to completing the work program for that period, the licence is renewable for another 2 year period. The first period work program involves undertaking geological and geophysical works, reviewing existing data and reprocessing seismic data, and the acquisition of 100 line kilometres of 2D seismic. On completion of the work in the first period, the tenement can be renewed for a second 2 year period that involves a minimum work program of undertaking geological, geophysical and geochemical studies plus drilling one exploration well. The second period work program will require commitment to further expenditure in the event that the tenement is renewed.

The Armour internal probabilistic unrisked prospective resource estimates are calculated with regard to seismic closure indicating the size of the structures and seismic attributes which suggest the presence of hydrocarbons, offset log data, analogous oil fields (eg. Kingfisher field), source seal trap and reservoir parameters provided by the Ugandan Ministry of Energy and Mineral Development.

A number of significant risks exist for the project, including but not limited to:

- No hydrocarbon charge to the defined structures;
- Carbon dioxide charge rather than hydrocarbons;
- Access and sovereign risks;
- Seismic crew and drill rig availability;
- Pipeline access and export;
- Additional requirements for capital; and
- Changes to fiscal arrangements and/or Production Sharing Agreement with the Government of Uganda.

Armour Energy has agreed, subject to Government of Uganda consent, to transfer the tenement to a project specific company in which Armour will have a 16.82% interest and DGR Global, a major shareholder in Armour, shall hold the other 83.18% interest in the transferee entity. Until the time of transfer to a project specific company, or if such transfer does not occur, Armour and DGR Global have agreed that the beneficial interest in the Kanywataba Block will be split 16.82% Armour and 83.18% DGR Global. In consideration for the benefical interest split DGR Global has agreed to meet tenement expenditure and work program commitments for the first 2 year period of exploration and indemnify Armour for these costs. The expenditure commitments agreed to by DGR are to fund US$873,000 for a Performance Guarantee, US$442,000 to complete the grant of the lease and US$1.98m for years 1 and 2 exploration commitments. Armour and DGR shall have pro-rata entitlement to new capital issues in the transferee company in respect of any excess expenditures, over and above the tenement expenditure and work program commitments for the first 2 year period of exploration, which may be required from time to time. In the circumstance that Armour incurs in aggregate greater than $1 million of expenditure on the Ugandan project before 31 August 2018, then Armour may be liable to pay an additional fee to MH Carnegie of up to $200,000 with respect to the $5 million convertible note subscription referred to above.

Executive Appointments

The Directors are also pleased to advise the of the following recent executive appointments:

- **Mr Roger Cressey** has been appointed as Chief Executive Officer;
- **Mr Peter Ashford** has been appointed as Chief Commercial Officer; and
- **Mr Peter Harding-Smith** has been appointed as Chief Financial Officer.

Roger Cressey has been Acting Chief Executive Officer since September 2016. Prior to that, Roger was Chief Operating Officer of Armour and has been with the Company since November 2011. Prior to joining Armour, Roger has been involved in the oil and gas industry for 20 years, mainly in project management roles involving the design, construction and commissioning of gas pipelines and processing plants, and also refinery upgrades. During that time, he worked on major projects for clients such as Chevron, Santos, Caltex, Origin and many others across Australia, in PNG and Indonesia. Since joining Armour, Roger has been involved with operations management of Armour's petroleum exploration activities and more recently on the management of the Kincora Project restart.

His management responsibilities have involved corporate and operational functions as well as Native Title negotiations, Government and stakeholder liaison, and contracts management for drilling, seismic surveys and other service providers.

Peter Ashford has joined Armour as Chief Commercial Officer. Peter's responsibiulities will include leading the Company's gas marketing activities, managing relationships with counterparties, and preparation and negotiation of Gas Sales Agreements. Peter will also develop and manage commercial agreements including Farm-in Agreements, Joint Operating Agreements, Gas Supply Agreements, Transportation & Processing Agreements, Joint Development Agreements, Asset and/or Share Sale and Purchase Agreements and Service Contracts. Peter has has over 34 years of oil and gas industry experience covering a broad range of technical, commercial and general business management roles including extensive international experience. Peter's most recent appointments include General Manager for Origin's interests in their coal seam gas to LNG business, Australia Pacific LNG, (5 years - to 2015) and Project Director for Origin's US$1 billion Kupe Gas Project development offshore North Island New Zealand (5 years – to 2010). Peter has also worked for Shell International (17 years – including 3 years at Woodside), and was an executive director for a small start-up oil and gas company (West Oil). Peter is a Fellow of the Institute of Chemical Engineers and a Fellow of the Australian Institute of Company Directors

Peter Harding-Smith has been appointed as Chief Financial Officer and is an experienced public company CFO with 20 years' experience across a wide range of industries and businesses and as a result brings a comprehensive range of skills to Armour Energy. Peter has deep experience in mergers and acquisitions, debt and equity funding, investor relations, corporate governance and financial management. Peter is a Chartered Accountant and Fellow of both the Governance Institute of Australia and Financial Services Institute of Australia (Finsia). Peter was previously the CFO and Company secretary for ASX listed Orbis Gold Limited, which was acquired in 2015 for $178 million by Canadian Gold producer SEMAFO Inc.

Material Terms of the CEO's Appointment

As CEO, Roger Cressey is entitled to an annual salary of $375,000 plus superannuation. He is currently entitled to a bonus at the discretion of the Board, having regard to his performance, and that of the Company. It is intended that the Board will establish a set of agreed Key Performance Indicators for the determination and measurement of future employment-related bonuses, and will also establish a suitable grant of employment related options.

Roger currently has 4.3 million employment options (at exercise prices from 20 through to 50 cents each) related to his employment with the Company to date.

On behalf of the board
Karl Schlobohm
Company Secretary

For further information contact:

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Competent Persons Statement

Statements in this release as to gas resources have been compiled from data provided by Armour's Chief Geologist, Mr Luke Titus. 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. Mr Titus' has over 20 years of relevant experience in both conventional and unconventional oil and gas exploration in various international hydrocarbon basins. Mr Titus has sufficient experience that is relevant to Armour's reserves and resources to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules 5.11. Mr Titus consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.