armour energy

ANNUAL REPORT

2016 / 2017

CORPORATE INFORMATION

DIRECTORS

Nicholas Mather
Executive Chairman

William (Bill) Stubbs
Non-Executive Director

Roland Sleeman
Non-Executive Director

Stephen Bizzell
Non-Executive Director

Matthew Beach (appointed 8 June 2017)
Non-Executive Director

SECRETARY

Karl Schlobohm

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CHAIRMAN'S REPORT

Dear Shareholder

Armour Energy is continuing to progress its transformation from a greenfields explorer to a development & production company.

During the period, Armour consolidated, refined and commenced its multi-phase restart program for gas production at its Kincora Project (Project) near Roma in Queensland. I am pleased to say that the restart and recommissioning works are almost complete and I would expect gas production to commence shortly.

Behind the above statement stands a great deal of hard work by the Company's Board and Executive team which over the past 12 months or so have overseen the following important milestones in the process of bringing the Project on stream:

- finalisation of settlement on the original Project tenement package acquired from Origin Energy;
- commencement of oil production in August 2016;
- consolidation of the Company's Project footprint via the acquisition of certain joint venture interests previously held by Santos and QGC;
- various substantial increases to the Project's resources and reserve estimates (refer Review of Operations for full details);
- complete analysis and ranking of over 100 oil production opportunities in work-overs of existing wells, new prospects and leads;
- development of detailed and prioritised plans for the drilling of new gas wells and work-overs for a number of existing wells;
- execution of a Gas Sales Agreement with APLNG, and a Connection Agreement with APA.

Hand in glove with these operational milestones, the Company embarked on a capital raising program which involved a number of key participants including M.H. Carnegie & Co who have now invested $8.25m in Convertible Notes since December 2016 and have committed (subject to certain conditions) to invest a further $5 million into the Company. Mr Matthew Beach joined the Board of Directors of the Company during the period as a result of M.H. Carnegie's investment, and he is a very welcome addition to the Board given his capital markets and corporate experience.

The year ahead will see the Company primarily focus its efforts on ramping up the rate of production at Kincora, via the realisation of the tremendous remaining exploration upside which I sincerely believe is waiting to be commercialised. It goes without saying that the Kincora Project offers the Company the cash flow opportunity through the production of gas, condensate, LPG and oil, to fund its overall growth strategy into the future.

The transformation of Armour to a producer is very timely in view of the gas situation in the Eastern States and the much hyped and alleged gas shortage which has been driving up prices and making it a seller's market. Despite the depressed oil price, gas in Eastern Australia is in demand and whilst we have contracted some gas to APLNG via our cornerstone agreement, we shortly expect to have additional volumes of gas for sale which will allow Armour to take advantage of spot market opportunities, and to tap into the higher prices which may be available.

I would like to take this opportunity to thank my fellow Board members and the Company's 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 Ltd (Armour) and its controlled entities (the Group) is focused on the discovery and production of world class gas and associated liquids resources. Armour commenced its exploration activity in an extensive and recently recognised hydrocarbon province in northern Australia - in the Northern Territory and in North-West Queensland. The domestic and global demand for gas, combined with the new shale extractive technologies and experienced personnel, provides Armour with an extraordinary opportunity to define and ultimately develop these new liquid rich gas provinces.

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 Group is focusing on the exploration of the McArthur, South Nicholson and Georgina Basins in the Northern Territory and Queensland, 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.

The Group acquired petroleum (oil and gas) resources, tenures, production and transportation infrastructure assets in the prior reporting period, which will enable the Group 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 production company.

HIGHLIGHTS

- **Queensland, Surat Basin:**
  - Armour now on title for all tenements;
  - Gas production restart program update;
  - Gas marketing strategies available through the Newstead Storage Facility;
  - Gas Sales Agreements executed with Australia Pacific LNG;
  - Pre-emptive rights acquisition of Santos' interests in Armour operated assets finalised;
  - Acquisition of QGC's interests in ATP647;
  - Reserves upgrade following economic viability and commercialisation of the Project;
  - Net oil production during the year of 11,028 bbls and sales of 10,212 bbls;
- **Northern Australia:**
  - Northern Territory Government announced a moratorium on hydraulic fracturing of onshore unconventional reservoirs including the use of hydraulic fracturing for exploration, extraction, production and including Diagnostic Fracture Injection Testing (DFITs).
- **Ripple Resources:**
  - Exploration work undertaken during the reporting year includes the selection of 2018 exploration holes and field sampling locations.
- **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.
- **Uganda - Kanywataba Block:**
  - Armour granted the exploration licence for the Kanywataba Block in the Albertine Graben.
- **Corporate:**
  - Capital Raising Update

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

SURAT BASIN

KINCORA PROJECT – ARMOUR ON TITLE FOR ALL TENEMENTS

As announced on 2 September 2016, the Group is on title for all 17 production licences, 3 exploration licences and 4 pipeline licences at the Kincora Project site. The project area covers over 3000 square kilometres of prospective acreage, and includes infrastructure connecting directly into the major gas hub on the east coast at Wallumbilla, Queensland. Management's estimate of the the overall replacement value of the Kincora infrastructure is more than $250 million (this is a non-IFRS measure and is unaudited). This infrastructure includes the 100% owned Newstead gas storage facility with a capacity of 7.5 PJs and which has 2.3 PJs of quality gas currently stored in it.

KINCORA PROJECT – GAS PRODUCTION RESTART PROGRAM UPDATE

As announced on 19 September 2017, the Project's planned Phase 1 gas production has commenced through the recommissioning of the dry gas circuit of the Kincora Gas Plant. The next stages of the restart involve recommissioning the Kincora to Wallumbilla pipeline and the commissioning of the new end of line facility at Wallumbilla. Completion of these activities will facilitate the sale of Newstead gas.

It is planned to commence production at 5 TJ/d from the Newstead gas storage facility.

Figure 1 - Kincora Plant - flare during commissioning of dry gas circuit

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

The Newstead storage facility currently holds approximately 2.3 PJ of treated (sales quality) gas which is expected to require only minimal re-processing (compression and dehydration) before sending to market at Wallumbilla.

Gas to be produced from existing wells (and potentially Newstead stored gas) will be treated by the wet gas circuit at the Kincora Gas Plant. The restart work on the wet gas circuit continues and is expected to be completed by December 2017. Once the commissioning of the wet gas circuit (ie the LPG and condensate systems and balance of field infrastructure) is completed the plan is to increase gas production to 9 TJ/d.

Phase 2 will involve the drilling of new wells plus workovers and stimulations of existing wells to achieve a ramp up of gas production to 20 TJ per day over a period of 12 to 18 months from first gas production.

GAS MARKETING STRATEGIES AVAILABLE THROUGH THE NEWSTEAD STORAGE FACILITY

The Group has direct access to the Roma to Brisbane Pipeline at Wallumbilla through its Kincora to Wallumbilla Pipeline under Queensland Petroleum Pipeline Licence number 3 (PPL 3). As a result, the Group 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 subject to appropriate gas transportation capacity and arrangements being available.

The Newstead storage facility currently holds approximately 2.3 PJ of treated gas (i.e. sales quality) which is expected to require minimal re-processing (compression and dehydration) before sending to market at Wallumbilla. Newstead has a total capacity ~7.5 PJs. 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 maximise sales opportunity during seasonal price cycle and trading activities, specifically sales into the peaking electricity market during the December to March period;

It is expected that gas injection and withdrawal rates will be able to be improved through de-bottlenecking and augmentation of facilities, thereby increasing potential for the abovementioned initiatives. The Group intends to commence detailed studies on this opportunity after gas sales have commenced.

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

KINCORA PROJECT - GAS SALES AGREEMENTS EXECUTED WITH AUSTRALIA PACIFIC LNG

On 22 December 2016, Armour announced it had executed a gas sales agreements with Australia Pacific LNG Marketing Pty Limited (Australia Pacific LNG) for the supply of gas from the Kincora Project to Australia Pacific LNG over a minimum of a five (5) year period.

The agreement provides the Group with a clearer path to cash flow certainty for 1.8 PJ/a over the first five years and will bring confidence to the restart with strong known cash flows underpinning the early years of the project. The key benefits flowing from the agreements with Australia Pacific LNG are:

- Australia Pacific LNG is a strong counterparty gas buyer, being a joint venture between three leading oil and gas companies (Origin Energy, ConocoPhillips, and Sinopec);
- the agreement provides the Group with delivery flexibility during the restart commissioning period;
- the agreed pricing provides the Group with cash flow certainty for gas delivered up to 1.8 PJ/a over the first 5 years;
- the Group has retained the right to supply the broader gas market, including a wide range of industrial customers, wholesale customers and traders and other LNG producers, after commitments to Australia Pacific LNG have been met; and
- convenient delivery point at Wallumbilla.

After the contractual commitments to Australia Pacific LNG have been met, the Group has retained the right to supply the broader gas market including a wide range of industrial customers, wholesale customers and traders, and LNG producers.

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

PRE-EMPTIVE RIGHTS ACQUISITION OF SANTOS' INTERESTS IN ARMOUR OPERATED ASSETS FINALISED

During the year the Group finalised all of the outstanding pre-emptive right transfers over Santos' interests in the Kincora Project. The Group now has a 100% interest in the darker blue shaded area in Figure 2 below, and as detailed in Table 1.

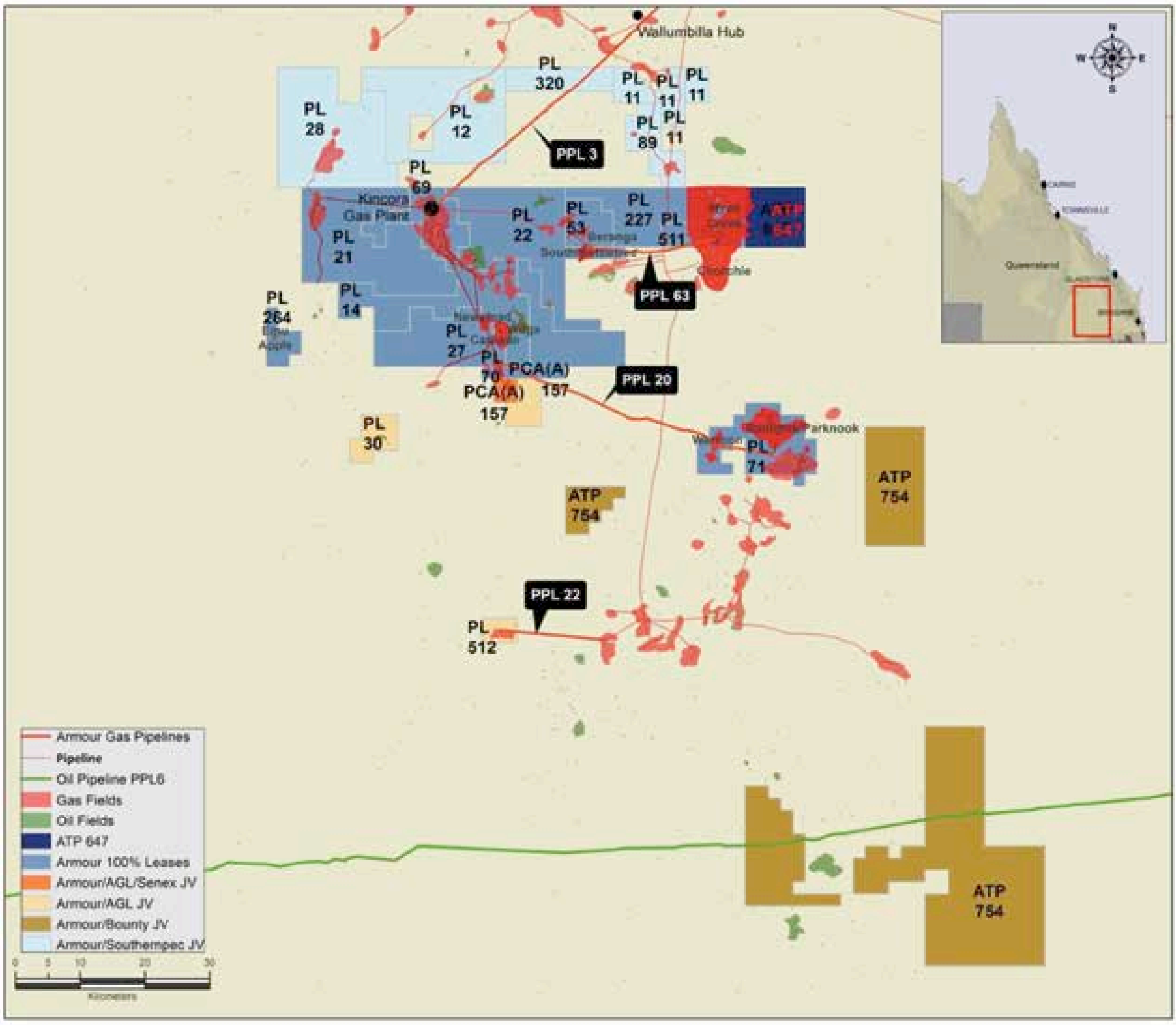

Figure 2 - Map showing the Kincora Project lease position

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

Table 1 below shows the percentage holding of the Group for all tenements.

TENEMENT	ARMOUR OPERATED	ARMOUR INTEREST
PL 14	*	100%
PL 53	*	100%
PL 70	*	100%
PL 511 (formerly PL 174)	*	100%
PL 227	*	100%
PPL 3	*	100%
PPL 20	*	100%
PPL 63	*	100%
Newstead Gas Storage	*	100%
PL 21	*	100%
PL 22	*	100%
PL 27	*	100%
PL 71 (production)	*	100%
PL 264	*	100%
PL 30	*	90%
PL 512 (formerly PL 74)	*	84%
PPL 22	*	84%
PL 71 (exploration)	*	80%
ATP 1190 (formerly ATP 471)	*	50.64%
ATP 647 (Block 2656)	*	100%
ATP 754		50%
PL 28		46.25%
PL 69		46.25%
PL 89		46.25%
PL 320W (formerly PL10W)		46.25%
PL 11W		46.25%
PL 12W		46.25%
PL 11 Snake Creek East Exclusion Zone		25%
ATP 1190 (Bainbilla) (formerly ATP 471)		24.748%

Table 1: the Group's tenement holding at the Kincora Project, Roma Shelf, Queensland

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

KINCORA PROJECT – ACQUISITION OF QGC'S INTEREST IN ATP647

On 31 May 2017, Armour announced that it had acquired QGC's interest in ATP647 on the Roma Shelf. The Group now holds 100% of ATP647 which is located immediately to the east of PL227 and its Myall Creek field.

With the Group now holding 100% of ATP647, the Group will be able to further expand the mature, but undeveloped, wet gas conventional and tight wet gas plays in Permian and Triassic reservoirs of the Bowen-Surat Basin. The existing Myall Creek East 1 well, located in the southwest corner of block ATP647, is currently suspended and is considered a candidate for stimulation and potential connection into the Myall Creek field gathering system and compressor station. This may provide another low cost operation to add to our growing portfolio on the Roma Shelf, and provide it with reserve growth and further production capacity to supply the domestic market.

The Group's updated tenement holding position at Kincora following the completion of its acquisition agreements with Santos and QGC is outlined in Figure 2 from page 7.

KINCORA PROJECT – RESERVES UPGRADE

On 3 April 2017 Armour announced a Reserves update on its operated Roma Shelf Assets, as part the Kincora Project. The commercialisation of the 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 2 below.

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 2 - estimated aggregated quantities of petroleum reserves

Notes:

1. Petroleum reserves are classified according to SPE-PRMS.
2. Petroleum reserves are stated on a risked net basis with historical production removed.
3. Petroleum reserves are stated inclusive of previous reported estimates.
4. Petroleum Reserves have no deduction applied for gas used to run the process plant estimated at 7%.
5. BCF = billion cubic feet, LPG = liquefied petroleum gas, PJ = petajoules, kbbl = thousand barrels, kTonne = thousand tonnes; Conversion 1.055 PJ/BCF.
6. 1P = Total Proved; 2P = Total Proved + Probable; 3P = Total Proved + Probable + Possible.
7. LPG Yield 2065 tonnes/petajoules, Condensate Yield 9938 barrels/petajoules.

KINCORA PROJECT - OIL PRODUCTION AND SALES

The Group is producing from the Emu Apple field, which is part of the Kincora Project assets. Production during the year was steady with annual oil production as follows:

OIL PRODUCTION (BBL)	OIL SALES (BBL)
11,028	10,212

Table 3 - Oil production and sales from Emu Apple field

The Group holds a 100% interest in the Emu Apple oil field and facility within PL264, having acquired the residual interest of Santos on the 30th March 2017.

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

NORTHERN AUSTRALIA

The Group's extensive exploration permits (EP) in Northern Territory and authorities to prospect (ATP) in North West Queensland remains in good standing with the government. The Group has spent considerable time identifying, qualifying and generating prospective and contingent resources in the unconventional Barney Creek, Tawallah, Lawn Hill and Riversleigh source rock packages and corresponding conventional leads and prospects. As part of its exploration program, the Group has drilled 8 wells and reported 5 hydrocarbon discoveries within the Armour 100% working interest EPs and ATPs. These exploration wells were designed to evaluate both the conventional, tight gas and unconventional reservoir from a single wellbore design.

MORATORIUM ON HYDRAULIC FRACTURING OF ONSHORE UNCONVENTIONAL RESERVOIRS

On 14 September 2016 the Northern Territory Government announced a moratorium on hydraulic fracturing of onshore unconventional reservoirs including the use of hydraulic fracturing for exploration, extraction, production and including Diagnostic Fracture Injection Testing (DFITs).

The moratorium will remain in place while an inquiry is investigating the environmental, social and economic risks and impacts of hydraulic fracturing of onshore unconventional gas reservoirs and associated activities in the Northern Territory.

The Group has proposed a suspension of the EPs to allow time for the Inquiry to deliver its Final Report and for Armour to best perform the required work program obligations following the outcome of the Inquiry.

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.

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

- Selection of 2018 exploration holes and field sampling locations;
- Regional modelling of prospective metal-bearing strata within the Leases;
- Interpretation of open-file geophysical survey data and 2D lines;
- Review of previous exploration work and relevant literature to Ripple's exploration areas;

VICTORIA (JV WITH LAKES OIL)

On the 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.

UGANDA – KANYWATABA BLOCK

Armour concluded negotiations with the Government of Uganda which enabled an exploration licence for the Kanywataba block to be granted to Armour following signing of the Production Sharing Agreement with the Government of Uganda. Armour is the first company to have been granted an exploration licence out of the first licencing round tender issued by the Government of Uganda in late 2015. The grant of the licence is a significant milestone for Armour and provides exposure to a world renowned oil province.

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.

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

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 Kanywataba block, on the east coast of Lake Albert. Armour considers the Kanywataba block to be a highly prospective oil play.

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 are considered to represent the most prospective targets, as indicated in the following table:

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	**647**	**809**	**971**

Table 4 - Prospectivity of Kanywataba Block, Uganda

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.

The construction of a crude oil export pipeline has been confirmed 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 undertake 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.

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

The Company 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 benefical 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$873k for a Performance Guarantee, US$442k to complete the grant of the lease and US$1.98m for years 1 and 2 exploration commitments.

GENERAL

CAPITAL RAISING PROGRAM

The Company continues to make good progress with respect to its previously announced $50 million capital raising program. Armour has entered into an 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 has now also been launched with further details contained in an ASX announcement dated 14 September 2017.

Further details of the Terms of Issue of the Convertible Notes are available on the Company's website.

GOVERNANCE ARRANGEMENTS

The contingent resource estimates listed in this report are subject to Armour's governance arrangements and internal controls. The Group's contingent resource estimates are derived by a Competent Person (as an internal resource or an independent external consultant) with the relevant experience and qualifications and are in compliance with the Society of Petroleum Engineer's Petroleum Resource Management System. Geological models are generated by the Group and reviewed by the Competent Person. The Competent Person carries out reviews of the quality and suitability of the data underlying the contingent resource estimate, and may conduct a site visit.

The resource estimates listed in this report were calculated by an independent consultant who acted as Competent Person. The Group periodically reviews its contingent resources in light of any new geological and/or exploration related data pertinent to the estimation or calculation of the contingent resource. Any revision of re-estimation of the contingent resource is calculated and approved by a Competent Person.

A full Competent Person's Statement appears on the next page.

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

COMPETENT PERSONS STATEMENT

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 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 has consented to the use of the resource figures in the form and context in which they appear in this report.

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 categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised 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.

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.

Information reported on the Contingent Resources in this report relate 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.

Armour's Bowen-Surat Basin Reserves Report prepared by SRK and based on data at 1 March 2017, documents total petroleum net reserves classified in accordance with SPE-PRMS guidelines. The estimated aggregated quantities of petroleum reserves to be recovered from existing wells and through future capital are listed in Table 2 above and have made no deduction for fuel and flare gas which would be estimated at 7%.

The independently verified Reserves Report compiled by SRK Consulting (Australasia) Pty Ltd details a high degree of confidence in the commercial producibility of Permian, Triassic and Jurassic aged reservoirs previously discovered and produced in operated granted petroleum licenses using 2D 3D seismic, historic and modern well data, reservoir pressure data, electric logs and rock properties from chip & core samples, gas composition analysis, hydraulic stimulation results, analysis of historical well production, decline curve analysis, offset field production data and prior production data from wells before the Kincora Gas Plant was shut in by the previous operator. The reported Reserves are used in connection with estimates of commercially recoverable quantities of petroleum only and in the most specific category that reflects an objective degree of uncertainty in the estimated quantities of recoverable petroleum. The petroleum reserves are reported net of fuel and net to Armour to the APA Group metered sales connection at Wallumbilla and the report discloses the portion of petroleum Reserves that will be consumed as fuel in production and lease plant operations. Armour will be using calibrated metering and gas chromatographs at the Kincora Gas Plant as a reference point for the purpose of measuring and assessing the estimated petroleum Reserves from the produced sales gas.

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

The economic assumptions used to calculate the estimates of petroleum Reserves are commercially sensitive to the Armour operated Kincora Project. The methodology used to determine the economic assumptions are based upon strategic objectives that include, but not limited to, new drills, workovers, recompletes and surface facility modifications to ramp up to and maintain a 20 TJ/day production profile for 15 years starting in June 2017. The sanctioned development model includes a starting and ending monthly schedule of working/net interest capital expenditure to develop and maintain the petroleum Reserves, operational expenditure to develop and produce the petroleum reserves, fixed petroleum reserve prices under-contract and escalated petroleum Reserve futures based upon Wallumbilla Hub prices, tax/royalty sensitivities, revenue from gross and net petroleum production yields and cash flow from petroleum production yields and summation of discounted cash flows.

The petroleum Reserves are located on granted petroleum licences with approved environmental authorities and financial assurances. Armour has licence to operate and relevant surface access agreements are in place. Armour is the owner and operator of the Kincora Project and PPL3 sales gas pipeline which connects the Kincora Gas Plant to the Wallumbilla gas hub via the connection agreement with APA. Armour holds granted Petroleum Licenses over the reported estimates of petroleum Reserves, associated gathering and field compressors.

The basis for confirming the commercial producibility and booking of the estimated petroleum Reserves is supported by actual historic production & sales and/or formation tests. The analytical procedures used to estimate the petroleum reserves were decline-curve analysis to 50 thousand-cubic-feet-day, historic production data and relevant subsurface data including, formation tests, 2D 3D seismic surveys, well logs and core analysis that indicate significant extractable petroleum.

The proposed extraction method of the estimated petroleum Reserves will be through approved conventional drilling and, where applicable, hydraulic stimulation techniques. Wellbores be cased and cemented with a wellhead. Petroleum will be recovered through production tubing and gathered to field compression sites for delivery to the Kincora Gas Plant. Processing at the Kincora Gas Plant will be required to separate the extracted hydrocarbons into dry gas, liquid petroleum gas, oil and condensate and to remove any impurities prior to sales.

Certain reported estimates of the petroleum Reserves relate to developed non-producing and undeveloped petroleum Reserves in known accumulations and are categorised as such by project schedule time-frames. The developed non-producing and undeveloped Reserves are sanctioned for development and justified for development based upon the Armour Kincora Project model. The methodology used to determine the economic assumptions are based upon strategic objectives that include, but not limited to, new drills, 3D seismic data control, workovers, recompletes and surface facility modifications to ramp up to and maintain a 20 TJ/day production profile to May 2031 for this modelled Reserve case.

AREA	INTEREST (%)	1P	2P	3P
Carbean	100.0	1.42	1.42	1.42
Sandy Creek	100.0	0.54	0.54	0.54
Kincora	100.0	0.46	0.46	0.46
North Colgoon	100.0	0.40	0.40	0.40
Borah Creek	100.0	0.24	0.24	0.24
Caxton	87.5	0.56	0.56	0.56
New Royal	87.5	0.49	0.49	0.49
Bottle Tree	87.5	0.77	0.77	0.77
Berwick	87.5	1.03	1.03	1.03
Beranga South	87.5	3.15	3.15	3.15
Myall Creek	100.0	18.40	42.10	137.80
PL 71 P	90.0	2.70	2.70	2.70
Estimated NET BCF	-	**30.16**	**53.86**	**149.56**
Estimated NET PJ	-	**31.82**	**56.82**	**157.79**
LPG (C3-C4) Yield Tonnes	-	**65,705.82**	**117,338.05**	**325,827.68**
Condensate (C5+) Yield bbl	-	**316,215.23**	**564,700.02**	**1,568,075.28**

REVIEW OF OPERATIONS AND ACTIVITIES (Continued)

Table 5 Notes:

1. *Petroleum Reserves are classified according to SPE-PRMS.*
2. *Petroleum Reserves are stated on a risked net basis with historical production removed.*
3. *Petroleum Reserves are stated inclusive of previous reported estimates.*
4. *Petroleum Reserves have no deduction applied for gas used to run the process plant estimated at 7%.*
5. *BCF = billion cubic feet, LPG = liquefied petroleum gas, PJ = petajoules, kbbl = thousand barrels, kTonne = thousand tonnes; Conversion 1.055 PJ/BCF.*
6. *1P = Total Proved; 2P = Total Proved + Probable; 3P = Total Proved + Probable + Possible.*
7. *LPG Yield 2065 tonnes/petajoules, Condensate Yield 9938 barrels/petajoules.*

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.

Nothing in this material should be construed as either an offer to sell or a solicitation of an offer to buy or sell securities. It does not include all available information and should not be used in isolation as a basis to invest in Armour Energy Limited.

DIRECTORS' REPORT

Armour Energy Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2017.

DIRECTORS

The names and details of the Group's 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

Matthew Beach (appointed 8 June 2017)

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

NICHOLAS MATHER

Executive Chairman (appointed 18 December 2009)
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.

In addition to being an Executive Chairman, Mr Mather is also a member of the remuneration committee. 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 and Toronto Stock Exchange (TSX)*
- 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 (appointed 18 December 2009)
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.

Mr Stubbs is also a member of the audit and risk committee.

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

- DGR Global Ltd*
- Lakes Oil NL*

*Current directorships

DIRECTORS' REPORT (Continued)

ROLAND SLEEMAN

Non-Executive Director (appointed 11 October 2011)
B.Eng (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 is the chair of the remuneration committee, and a member of the audit and risk committee.

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

STEPHEN BIZZELL

Non-Executive Director (appointed 9 March 2012)
B.Comm, 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 1999 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 from 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.

Mr Bizzell is chair of the audit and risk committee, and a member of the remuneration committee. During the past three years Mr Bizzell has also served as a Director of the following listed companies:

- HRL Holdings Ltd (formerly Hot Rock Limited - resigned 14 August 2014)
- Diversa Ltd (resigned 6 October 2016)
- Renascor Resources Ltd* (formerly Renaissance Uranium Ltd)
- Stanmore Coal Ltd*
- Augend Ltd (formerly Titan Energy Services Ltd - resigned 14 April 2016)
- Laneway Resources Limited* (formerly Renison Consolidated Mines NL)
- UIL Energy Ltd*

*Current directorships

MATTHEW BEACH

Non-Executive Director (appointed 8 June 2017)
B.Comm, CA

Mr Beach is a Partner at private equity and alternative asset manager, M.H. Carnegie & Co (MHC), and has been appointed as their nominee on the Armour Board. Mr Beach is a finance and investment professional with over 20 years' experience in acquiring, building and selling businesses across a range of industries, both domestically and internationally.

He was the founding CEO of Global Aviation Asset Management (GAAM), an international aircraft leasing business. Matthew grew GAAM from a start-up to a fleet of 53 commercial aircraft, valued at $2bn, and successfully sold the portfolio to the NYSE-listed FLY Leasing Limited in October 2011.

He also has experience as an Executive Director at the Liberman Family's LJCB Investment Group, one of Australia's largest family offices. He is experienced in capital markets transactions, preparing businesses for IPO, managing the underwriting of equity capital raisings and preparing bidder's statements for ASX takeovers.

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

DIRECTORS' REPORT (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	NUMBER OF CONVERTIBLE NOTES
Nicholas Mather	3,126,831	1,500,000	9,287,049
William (Bill) Stubbs	354,158	750,000	-
Roland Sleeman	60,000	750,000	-
Stephen Bizzell	1,131,578	6,500,000	9,425,280
Matthew Beach*	-	750,000	-

*MHC holds 2,000,000 unlisted options in Armour Energy. Mr Beach provides services to MHC via a contracting agreement with part of his remuneration based on the profitability of MHC.

COMPANY SECRETARY

KARL SCHLOBOHM

B.Comm, B.Econ, M.Tax, CA

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 Northern Territory and Queensland, as well as restart activities of the Group's production and transportation infrastructure assets on the Roma Shelf, Queensland.

Ripple Resources is a wholly owned subsidiary of Armour, and holds seven granted EPM's (Exploration Permits for Minerals) and three applications in Queensland, within the area covered by ATP1087. In the Northern Territory, Ripple Resources holds four granted EPM's and two applications, 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 2017 was $11,474,692 (2016 loss: $18,873,927). The decrease in the loss after income tax compared to the prior year is primarily due to the impairment of the Victorian exploration and evaluation assets, the acquisition of the Kincora Project from Origin Energy, and costs relating to the Westside takeover defence.

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.

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.

DIRECTORS' REPORT (Continued)

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 2017 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
8. Debt instruments disclosures
9. Other transactions with key management personnel

1. INDIVIDUAL KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel

(i) Directors

Nicholas Mather - Executive Chairman William (Bill) Stubbs - Non-Executive Director Roland Sleeman - Non-Executive Director Stephen Bizzell - Non-Executive Director Matthew Beach - Non-Executive Director

(ii) Executives

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

Roger Cressey - Acting Chief Executive Officer (from 1 October 2016) and Chief Executive Officer (from 12 September 2017)

Peter Ashford - Chief Commercial Officer (from 3 May 2017)

Karl Schlobohm - Company Secretary

Priy Jayasuriya - Chief Financial Officer (to 13 August 2017)

Peter Harding-Smith - Chief Financial Officer (from 14 August 2017)

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.

DIRECTORS' REPORT (Continued)

2. REMUNERATION POLICY

The Group's remuneration policy is designed to attract, motivate and retain Executives 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.

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. The maximum aggregate remuneration is currently set to $500,000 per annum.

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 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.

The remuneration of Non-Executive Directors for the year ended 30 June 2017 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.

DIRECTORS' REPORT (Continued)

4. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

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 2017 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 2017 was $0.07.

	2012	2013	2014	2015	2016	2017
Share price at 30 June	$0.28	$0.22	$0.16	$0.05	$0.06	$0.07
Revenue	1,030,438	4,785,368	1,939,917	115,040	153,569	572,600
Profit (Loss)	(1,509,547)	1,579,900	(1,694,418)	(6,575,074)	(18,873,927)	(11,474,692)

As the Group was previously 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. Going forward, the Company will be in the production stage, and the link between Group performance and shareholder wealth will be strongly linked.

6. EXECUTIVE CONTRACTUAL ARRANGEMENTS

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

All Executive employment agreements have three months (or less) notice periods. Salaried 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.

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

The Group had an Executive Employment Agreement with Mr de Weijer, until 30 September 2016.

Under the terms of the agreement:

- Mr de Weijer was entitled to a base remuneration of $400,000 per annum, inclusive of superannuation.
- Mr de Weijer was 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 were entitled to terminate the contract upon giving three (3) months written notice;
- The Group was entitled to terminate the agreement immediately upon Mr de Weijer's insolvency or certain acts of misconduct;
- Mr de Weijer was entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, responsibilities or authority;
- Mr de Weijer was entitled to a series of performance bonuses, at the Boards election, if the following key performance indicators were 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;
  - (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).

6. EXECUTIVE CONTRACTUAL ARRANGEMENTS (CONTINUED)

Roger Cressey - Chief Executive Officer (from 12 September 2017)

The Group has an Executive Service Agreement with Mr Cressey, which took effect on 21 November 2011.

- Mr Cressey is entitled to a base remuneration of $375,000 per annum, exclusive of superannuation.
- Mr Cressey 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 Cressey are entitled to terminate the contract upon giving three (3) months written notice;
- The Group is entitled to terminate the agreement immediately upon Mr Cressey's insolvency or certain acts of misconduct;
- Mr Cressey is entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, responsibilities or authority;
- Mr Cressey is 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.

Nicholas Mather - Executive Chairman

Mr Mather is entitled to receive Director's remuneration of $210,000 per annum from the Company for his services as an Executive Chairman. Bonus payments are at the discretion of the remuneration committee.

Other Executives

Employment contracts entered into with other 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, included in the contractual arrangements to other management personnel is set out below:

BASE REMUNERATION INCLUDING SUPERANNUATION		
NAME	SALARY	MAXIMUM BONUS PAYABLE
Peter Ashford	$359,707	$107,912
Karl Schlobohm	$50,000	-
Priy Jayasuriya*	$50,000	-
Peter Harding-Smith	$300,000	$90,000

* Mr Jayasuriya resigned on 13 August 2017.
* Mr Harding-Smith was appointed on 14 August 2017.

DIRECTORS' REPORT (Continued)

6. EXECUTIVE CONTRACTUAL ARRANGEMENTS (CONTINUED)

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 2017, no bonuses were paid or granted for the financial year.

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

NAME	PERFORMANCE PAYMENT PAID 2017	PERFORMANCE PAYMENT FORFEITED 2017
Roger Cressey	-%	-%
Peter Ashford	-%	-%
Karl Schlobohm	-%	-%
Priy Jayasuriya	-%	-%

DIRECTORS' REPORT (Continued)

6. EXECUTIVE CONTRACTUAL ARRANGEMENTS (CONTINUED)

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 2017.

NAME	YEAR	SHORT TERM BENEFITS		POST-EMPLOYMENT	SHARE BASED PAYMENTS		TOTAL	% OPTIONS/ SHARES	% PERFORM-ANCE RELATED
		SALARY & FEES $	BONUS $	SUPER-ANNUATION $	OPTIONS $	SHARES $	$		
Current Directors									
Nicholas Mather	2017	210,000	-	-	97,804	-	307,804	31.80%	-%
	2016	210,000	-	-	-	-	210,000	-%	-%
William Stubbs	2017	50,000	-	-	48,902	-	98,902	49.40%	-%
	2016	50,000	-	-	-	-	50,000	-%	-%
Roland Sleeman	2017	50,000	-	-	48,902	-	98,902	49.40%	-%
	2016	50,000	-	-	-	-	50,000	-%	-%
Stephen Bizzell	2017	127,876	-	-	97,804	-	225,679	43.30%	-%
	2016	50,000	-	-	-	-	50,000	-%	-%
Matthew Beach	2017	-	-	-	20,390	-	20,390	100%	-%
	2016	-	-	-	-	-	-	-%	-%
Other Key Management Personnel									
Robbert de Weijer*	2017	227,365	-	11,623	-	-	238,988	-%	-%
	2016	370,113	-	24,975	137,984	10,211	543,283	25.40%	-%
Roger Cressey	2017	330,223	-	30,435	84,756	-	445,415	19%	-%
	2016	320,066	-	30,435	25,048	8,925	384,474	6.50%	-%
Peter Ashford	2017	14,469	-	4,215	-	-	18,684	-%	-%
	2016	-	-	-	-	-	-	-%	-%
Chris Ohlrich*	2017	-	-	-	-	-	-	-%	-%
	2016	241,139	-	20,398	50,229	7,859	319,625	15.70%	-%
Karl Schlobohm	2017	50,000	-	-	28,252	-	78,252	36.10%	-%
	2016	46,806	-	-	8,349	2,500	57,655	14.50%	-%
Priy Jayasuriya	2017	50,000	-	-	28,252	-	78,252	36.10%	-%
	2016	45,625	-	4,358	8,349	1,482	59,814	14.00%	-%
	2017	**1,109,933**	**-**	**46,273**	**455,062**	**-**	**1,611,268**		
Total Remuneration	**2016**	**1,383,749**	**-**	**80,166**	**229,959**	**30,977**	**1,724,851**		

*Mr Ohlrich resigned on 5 April 2016. Mr de Weijer resigned on 30 September 2016. Mr Jayasuriya resigned on 13 August 2017.

No performance based payments to Key Management Personnel were paid or granted during 2017 (2016: nil)

For the year ended 30 June 2017 $470,524 of salary and fees were taken as convertible notes in lieu of cash (2016: nil).

DIRECTORS' REPORT (Continued)

7. EQUITY INSTRUMENT DISCLOSURES

Options granted as part of remuneration for the year ended 30 June 2017.

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 2017 there were 5,250,000 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 2017 to Key Management Personnel as remuneration are set out below:

NAME	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 2017
R Cressey	6/2/15	200,000	$0.30	6/2/18	6/2/15	200,000	100%	$0.015	0	0	200,000
P Jayasuriya	6/2/15	50,000	$0.30	6/2/18	6/2/15	50,000	100%	$0.015	0	0	50,000
K Schlobohm	6/2/15	50,000	$0.30	6/2/18	6/2/15	50,000	100%	$0.015	0	0	50,000
R Cressey	29/3/16	900,000	$0.20	29/3/21	1/3 each anniversary	300,000	33.33%	$0.064	0	0	900,000
K Schlobohm	29/3/16	300,000	$0.20	29/3/21	1/3 each anniversary	100,000	33.33%	$0.064	0	0	300,000
P Jayasuriya	29/3/16	300,000	$0.20	29/3/21	1/3 each anniversary	100,000	33.33%	$0.064	0	0	300,000
R Cressey	29/3/16	900,000	$0.35	29/3/21	1/3 each anniversary	300,000	33.33%	$0.059	0	0	900,000
K Schlobohm	29/3/16	300,000	$0.35	29/3/21	1/3 each anniversary	100,000	33.33%	$0.059	0	0	300,000
P Jayasuriya	29/3/16	300,000	$0.35	29/3/21	1/3 each anniversary	100,000	33.33%	$0.059	0	0	300,000
R Cressey	29/3/16	900,000	$0.50	29/3/21	1/3 each anniversary	300,000	33.33%	$0.056	0	0	900,000
K Schlobohm	29/3/16	300,000	$0.50	29/3/21	1/3 each anniversary	100,000	33.33%	$0.056	0	0	300,000
P Jayasuriya	29/3/16	300,000	$0.50	29/3/21	1/3 each anniversary	100,000	33.33%	$0.056	0	0	300,000
N Mather	19/12/16	500,000	$0.22	14/12/19	19/12/16	500,000	100%	$0.066	0	0	500,000
S Bizzell	19/12/16	500,000	$0.22	14/12/19	19/12/16	500,000	100%	$0.066	0	0	500,000
B Stubbs	19/12/16	250,000	$0.22	14/12/19	19/12/16	250,000	100%	$0.066	0	0	250,000
R Sleeman	19/12/16	250,000	$0.22	14/12/19	19/12/16	250,000	100%	$0.066	0	0	250,000
N Mather	19/12/16	500,000	$0.27	14/12/19	19/12/16	500,000	100%	$0.65	0	0	500,000
S Bizzell	19/12/16	500,000	$0.27	14/12/19	19/12/16	500,000	100%	$0.65	0	0	500,000
B Stubbs	19/12/16	250,000	$0.27	14/12/19	19/12/16	250,000	100%	$0.65	0	0	250,000
R Sleeman	19/12/16	250,000	$0.27	14/12/19	19/12/16	250,000	100%	$0.65	0	0	250,000
N Mather	19/12/16	500,000	$0.32	14/12/19	19/12/16	500,000	100%	$0.64	0	0	500,000
S Bizzell	19/12/16	500,000	$0.32	14/12/19	19/12/16	500,000	100%	$0.64	0	0	500,000
B Stubbs	19/12/16	250,000	$0.32	14/12/19	19/12/16	250,000	100%	$0.64	0	0	250,000
R Sleeman	19/12/16	250,000	$0.32	14/12/19	19/12/16	250,000	100%	$0.64	0	0	250,000
M Beach	31/5/17	250,000	$0.22	14/12/19	31/5/17	250,000	100%	$0.22	0	0	250,000
M Beach	31/5/17	250,000	$0.27	14/12/19	31/5/17	250,000	100%	$0.27	0	0	250,000
M Beach	31/5/17	250,000	$0.32	14/12/19	31/5/17	250,000	100%	$0.32	0	0	250,000

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 20(d)).

7. EQUITY INSTRUMENT DISCLOSURES (CONTINUED)

Performance shares

There are nil performance shares on issue over unissued ordinary shares in Armour Energy Ltd as at 30 June 2017 (2016: nil).

Shares issued on exercise of remuneration options

There were nil options exercised during the year that were previously granted as remuneration (2016: 1,200,000).

Shareholdings

Details of all ordinary shares in Armour Energy Ltd at 30 June 2017 held by Key Management Personnel is set out below:

	BALANCE 1 JUL-16	GRANTED AS COMPENSATION	OPTIONS EXERCISED	NET CHANGE OTHER#	BALANCE 30 JUN-17
Directors					
Nicholas Mather	3,126,831	-	-	-	3,126,831
William Stubbs	354,158	-	-	-	354,158
Roland Sleeman	60,000	-	-	-	60,000
Stephen Bizzell	1,131,578	-	-	-	1,131,578
Matthew Beach	-	-	-	-	-
Other Key Management Personnel					
Robbert de Weijer	1,897,263	-	-	(1,897,263)	-
Roger Cressey	1,453,753	-	-	-	1,453,753
Peter Ashford	-	-	-	-	-
Karl Schlobohm	208,365	-	-	-	208,365
Priy Jayasuriya	72,377	-	-	-	72,377
Total	**8,304,325**	**-**	**-**	**(1,897,263)**	**6,407,062**

"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 2017.

Option Holdings

	BALANCE 1 JUL-16	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER#	BALANCE 30-JUN 2017	TOTAL VESTED	TOTAL VESTED AND EXERCISABLE	TOTAL VESTED AND UN-EXERCISABLE
Directors								
Nicholas Mather	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
William Stubbs	-	750,000	-	-	750,000	750,000	750,000	-
Roland Sleeman	-	750,000	-	-	750,000	750,000	750,000	-
Stephen Bizzell	-	1,500,000	-	5,000,000	6,500,000	6,500,000	6,500,000	-
Matthew Beach	-	750,000	-	-	750,000	750,000	750,000	-
Other Key Management Personnel								
Robbert de Weijer	6,300,000	-	-	(6,300,000)	-	-	-	-
Roger Cressey	3,700,000	-	-	(800,000)	2,900,000	1,100,000	1,100,000	-
Peter Ashford	-	-	-	(800,000)	-	-	-	-
Karl Schlobohm	1,150,000	-	-	- (200,000)	950,000	350,000	350,000	-
Priy Jayasuriya	1,150,000	-	-	(200,000)	950,000	350,000	350,000	-
Total	**12,300,000**	**5,250,000**	**-**	**(2,500,000)**	**15,050,000**	**12,050,000**	**12,050,000**	**-**

#"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 2017 (2016: nil)

8. DEBT INSTRUMENT DISCLOSURES

Convertible notes issued for the year ended 30 June 2017.

	BALANCE 1 JUL-16	GRANTED AS COMPENSATION	CONVERTED INTO SHARES	NET CHANGE OTHER#	BALANCE 30 JUN-17
Directors					
Nicholas Mather	-	-	-	9,287,049	9,287,049
William Stubbs	-	-	-	-	-
Roland Sleeman	-	-	-	-	-
Stephen Bizzell	-	-	-	9,425,280	9,425,280
Matthew Beach	-	-	-	-	-
Other Key Management Personnel					
Robbert de Weijer	-	-	-	-	-
Roger Cressey	-	-	-	2,414,332	2,414,332
Peter Ashford	-	-	-	-	-
Karl Schlobohm	-	-	-	588,905	588,905
Priy Jayasuriya	-	-	-	490,754	490,754
Total	**-**	**-**	**-**	**22,206,320**	**22,206,320**

"Net change other" above includes the balance of convertible notes acquired for cash on the same terms and conditions to other note holders, and capitalised interest.

9. OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Mr Stephen Bizzell (a Director), is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. The Group entered into an agreement with Bizzell Capital Partners Pty Ltd as Lead Manager for the capital raising program detailed in an ASX announcement on 16 December 2016. Under the agreement, a management fee was payable of one (1) percent of the funds raised under the offer, a placement fee of five (5) percent of all new shares issued, an underwriting fee of five (5) percent of the value of shares underwritten in the entitlement offer, and an option fee of five (5) million options were issued.

No management fee, underwriting fee or placement fee was payable with respect to amounts subscribed by DGR Global Limited or amounts sub-underwritten by DGR Global Limited under the entitlement offer and Bizzell Capital Partners was responsible for selling fees, stamping fees and sub-underwriting fees it had to pay out of the fees to other brokers or to sub-underwriters of the offers. The gross fees paid under this agreement for the year ended 30 June 2017 was $838,410 (2016: nil) and Bizzell Capital Partners paid from this fees to other parties in respect of the offers of approximately $425,000. Refer to notes 19 and 20 for details on the options.

The Group also paid Bizzell Capital Partners a corporate advisory fee of $77,875 for his involvement in the 2015 and 2016 events of the takeover offer by Westside Corporation, the proportional takeover offer by American Energy Partners, the farm-out agreement with American Energy Partners, and the DGR Finance Facility. Bizzell Capital Partners held 9,425,280 convertible notes as at 30 June 2017, purchased on the same terms and conditions as all other noteholders.

In July 2016, the Group entered into a short-term, debt finance facility from Bizzell Capital Partners Pty Ltd to assist with working capital until the Group's capital raising program was executed in December 2016. Interest of $64,648 was charged on the loan funds, and a total of $132,508 was repaid in cash, and $1,000,000 was repaid by the issue of convertible notes to close the loan facility during the year ended 30 June 2017.

M.H. Carnegie & Co Pty Ltd (MHC), via MHC Fund Services 2A Pty Ltd as trustee for Carnegie Private Opportunities Fund No. 2A (CPOF2), has agreed to sub-underwrite $500,000 of Armour's pro-rata non-renounceable entitlement offer (refer to subsequent event disclosures for detailed information) for a sub-underwriting fee of 3%. MHC is the manager of CPOF2 and holds 2,000,000 unlisted options in Armour Energy Ltd.

Mr Matthew Beach, a director of Armour Energy, provides services to MHC via a contracting agreement with part of his remuneration based on the performance of CPOF2 and profitability of MHC. MHC Fund Services 2A Pty Ltd currently owns 75,980,696 Convertible Notes, totalling $8,357,877 in Armour Energy but has no current shareholding in Armour Energy. MHC holds 2,000,000 unlisted options in Armour Energy Ltd.

Other than the above, there were no other transactions with Key Management Personnel for the year ended 30 June 2017.

(End of Remuneration Report) (audited)

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:

DIRECTOR	BOARD MEETINGS		AUDIT AND RISK		REMUNERATION COMMITTEE	
	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	10	10	-	-	-	-
William (Bill) Stubbs	10	8	2	2	-	-
Roland Sleeman	10	8	2	2	-	-
Stephen Bizzell	10	10	2	2	-	-
Matthew Beach	1	1	-	-	-	-

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.

ASX WAIVER

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

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

Accordingly, Armour 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 Group'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

ASX WAIVER (CONTINUED)

(c) 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.

Shareholders should note that the above is not an exhaustive summary of all of the security arrangements which the Company has in place. Rather, the summary relates only to the DGR Global Limited Secured Bridging Finance Facility and the waiver granted to Armour by ASX in respect of ASX Listing Rule 10.1.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Convertible Notes

On 31 August 2017, Armour issued a further 2,136,364 convertible notes on the same terms and conditions as disclosed in note 17.

Rights Issue

On 15 September 2017, Armour announced a non-renounceable entitlement offer (Entitlement Offer) to eligible shareholders on the basis of 1 new fully paid ordinary share for every 6 shares held (New Shares), at an issue price of $0.076 per share (Issue Price).

The Entitlement Offer is fully underwritten by Bizzell Capital Partners Pty Ltd, an entity controlled by Armour Director Stephen Bizzell. Full details of the underwriting arrangements are outlined in the Offer Booklet which will be sent to eligible shareholders and published as a market announcement.

Assuming no existing options or Convertible Notes on issue in the Company are exercised or converted, approximately 56,002,662 New Shares will be made available under the Entitlement Offer. New Shares issued pursuant to the Entitlement Offer will rank equally with all existing shares on issue.

The Entitlement Offer is seeking to raise approximately $4,256,202 (before costs). It is proposed that the funds raised from the Entitlement Offer and Additional Placement will be used to fund the re-commissioning and re-start activities at the Company's Kincora Project in Queensland, fund other growth initiatives, pay creditors, provide additional working capital, and fund the costs of the Entitlement Offer.

Kanywataba Block - Uganda

On 19 September 2017, Armour announced that it had been granted the exploration licence for the Kanywataba Block in the Albertine Graben in Uganda.

The exploration licence is 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.

Armour 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.

DIRECTORS' REPORT (Continued)

SIGNIFICANT EVENTS AFTER BALANCE DATE (CONTINUED)

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. DGR has now funded US$873,000 towards the Performance Guarantee and a US$442,000 payment to complete the grant of the lease and has agreed to meet expenditure of US$1.98m for years 1 and 2 exploration commitments.

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.

NON-AUDIT SERVICES

Non-audit services by the Group's auditor BDO Audit Pty Ltd were provided in relation to the acquisition of Surat Basin assets. For the year ended 30 June 2017 $15,028 was paid or payable (2016: $225,408).

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 34.

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
6-Feb-15	6-Feb-18	$0.30	550,000
29-Mar-16	29-Mar-21	$0.20	3,150,000
29-Mar-16	29-Mar-21	$0.35	3,150,000
29-Mar-16	29-Mar-21	$0.50	3,150,000
14-Dec-16	14-Dec-19	$0.22	1,500,000
14-Dec-16	14-Dec-19	$0.27	1,500,000
14-Dec-16	14-Dec-19	$0.32	1,500,000
19-Dec-16	30-Aug-18	$0.20	5,000,000
1-Jun-17	29-May-20	$0.22	666,666
1-Jun-17	29-May-20	$0.27	666,667
1-Jun-17	29-May-20	$0.32	666,667
8-Jun-17	14-Dec-19	$0.22	250,000
8-Jun-17	14-Dec-19	$0.27	250,000
8-Jun-17	14-Dec-19	$0.32	250,000
31-Jul-17	14-Dec-19	$0.22	2,524,998
31-Jul-17	14-Dec-19	$0.27	2,525,001
31-Jul-17	14-Dec-19	$0.32	2,525,001

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
Brisbane
28 September 2017

DECLARATION OF INDEPENDENCE

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

As lead auditor for the audit of Armour Energy Limited for the year ended 30 June 2017, 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 period.

T J Kendall
Director

BDO Audit Pty Ltd
28 September 2017

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 25 September 2017.

A. DISTRIBUTION SCHEDULE

Fully Paid Ordinary Shares, Unlisted Options and Unlisted Convertible Notes

	ORDINARY SHARES		CONVERTIBLE NOTES AT $0.11 PER NOTE		UNLISTED OPTIONS EXERCISABLE AT $0.20 ON VARIOUS DATES	
	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF SHARES
1 to 1,000	45	5,851	-	-	-	-
1,001 to 5,000	168	596,925	-	-	-	-
5,001 to 10,000	248	2,105,799	-	-	-	-
10,001 to 100,000	782	30,919,599	9	754,970	-	-
100,001+	322	302,387,798	55	302,040,212	8	8,150,000
Total	**1,565**	**336,015,972**	**64**	**302,795,182**	**8**	**8,150,000**

	UNLISTED OPTIONS EXERCISABLE AT $0.22 ON VARIOUS DATES		UNLISTED OPTIONS EXERCISABLE AT $0.27 ON VARIOUS DATES		UNLISTED OPTIONS EXERCISABLE AT $0.30 ON OR BEFORE 6 FEB 2018	
	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 100,000	11	591,666	11	591,667	3	150,000
100,001+	12	4,349,998	12	4,350,001	2	400,000
Total	**23**	**4,941,664**	**23**	**4,941,668**	**5**	**550,000**

	UNLISTED OPTIONS EXERCISABLE AT $0.32 ON VARIOUS DATES		UNLISTED OPTIONS EXERCISABLE AT $0.35 ON OR BEFORE 29 MARCH 2021		UNLISTED OPTIONS EXERCISABLE AT $0.50 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 100,000	11	591,667	-	-	-	-
100,001+	12	4,350,001	7	3,150,000	7	3,150,000
Total	**23**	**4,941,668**	**7**	**3,150,000**	**7**	**3,150,000**

The number of security investors holding less than a marketable parcel of shares is 252 and they hold 829,712 securities.

SHAREHOLDER INFORMATION (Continued)

B. TWENTY LARGEST HOLDERS

NAME	ORDINARY SHARES	
	NUMBER HELD	% OF ISSUED SHARES
DGR Global Limited	75,050,000	22.34%
Mr Paul Cozzi	20,000,000	5.95%
Rookharp Investments Pty Limted	14,645,714	4.36%
Lachlan Gold Ltd	12,000,000	3.57%
HSBC Custody Nominees (Australia) Limited	10,369,855	3.09%
BT Portfolio Services Limited	9,500,000	2.83%
CF2 Pty Ltd	5,263,158	1.57%
J Barlow Consultants Pty Ltd	4,319,000	1.29%
J P Morgan Nominees Australia Limited	4,140,147	1.23%
Lujeta Pty Ltd	4,050,000	1.21%
Finn Air Holdings Pty Ltd	3,593,070	1.07%
CPS Control Systems Pty Limited	3,493,559	1.04%
LGL Trustees Limited	3,455,200	1.03%
Choice Investments Dubbo Pty Ltd	3,290,790	0.98%
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP	3,067,780	0.91%
Mr Yee Teck Teo	2,800,000	0.83%
K J Hayes Corporation Pty Ltd	2,700,000	0.80%
Mr Ronald Geoffrey Phillips	2,530,000	0.75%
Hayes Pastoral Corporation Pty Ltd	2,500,000	0.74%
Sixth Erra Pty Ltd	2,467,458	0.73%
	189,235,731	56.32%

C. SUBSTANTIAL HOLDERS

The Company is aware of the following substantial holdings:

NAME	NUMBER OF SHARES	PERCENTAGE
DGR Global Limited	75,050,000	22.34%
Mr Paul Cozzi	20,000,000	5.95%
	95,050,000	28.29%

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 2017.

INTEREST IN TENEMENTS

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

			APPLICATION			
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	18/12/18	6 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	11/09/16	N/A	10/09/18	2 years	Ripple Resources Pty Ltd
EPM 19836	100	11/09/16	N/A	10/09/18	2 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 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
EPM 26497	100	N/A	13/03/17	N/A	3 years	Ripple Resources Pty Ltd
EPM 26498	100	N/A	13/03/17	N/A	3 years	Ripple Resources Pty Ltd
ELM 30494	100	08/04/17	N/A	07/04/21	6 years	Ripple Resources Pty Ltd
ELM 30810	100	15/02/16	N/A	14/02/22	6 years	Ripple Resources Pty Ltd
ELM 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
ELM 31012	100	N/A	28/09/15	N/A	6 years	Ripple Resources Pty Ltd
ELM 31544	100	N/A	14/03/17	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)	100		N/A			Armour Energy (Surat Basin) Pty Ltd

INTEREST IN TENEMENTS (Continued)

APPLICATION						
TENEMENT	% INTEREST	GRANT DATE	APPLICATION DATE	EXPIRY DATE	TERM	HELD BY
PL 71 (expl)*	80		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 21	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 22	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 27	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 264	100		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	90		N/A			Armour Energy (Surat Basin) Pty Ltd
PL 512	84		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	84		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
ATP 647 (BLOCK 2656)	100		N/A			Armour Energy (Surat Basin) Pty Ltd
PEP 169	51		N/A			Armour Energy Ltd (Joint Venture with Lakes Oil NL)
PRP 166	25		N/A			Armour Energy Ltd (Joint Venture with Lakes Oil NL)
Kanywataba Block (Uganda) 100	100	15/09/17	N/A	14/09/19		Armour Energy Ltd

* Refers to interests that are beneficially held.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	NOTES	2017 $	2016 $
Sale of goods	2	618,276	-
Cost of goods sold		(165,414)	-
Gross profit		**452,862**	**-**
Other income	2	12,941	72,688
Interest income	2	106,797	80,881
Administration and consulting expenses		(1,842,231)	(1,582,944)
Depreciation		(627,905)	(425,659)
Employee benefits expenses		(1,290,149)	(1,523,102)
Exploration expenditure written off		(1,032,946)	(6,809,881)
Legal expenses		(554,163)	(1,304,551)
Finance costs		(3,501,195)	(1,634,801)
Share based payments	20(d)	(882,396)	(277,130)
Takeover defence		-	(1,125,549)
New business development		(78,927)	(1,625,576)
Acquisition and divestment		(27,138)	(583,959)
Maintenance		(457,653)	(130,479)
Restoration and Abandonments		-	561,382
Gas operating costs		(1,752,589)	(3,105,277)
Loss before income tax	**3**	**(11,474,692)**	**(19,413,957)**
Income tax (expense)/benefit	4	-	540,030
Loss for they year	**4**	**(11,474,692)**	**(18,873,927)**
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)
• Income tax on items that may be reclassified to profit or loss		-	637,500
Other comprehensive income for the year, net of tax		**-**	**(1,487,500)**
Total comprehensive income for the year		**(11,474,692)**	**(20,361,427)**
		CENTS	CENTS
Basic earnings per share	7	(3.5)	(6.0)
Diluted earnings per share	7	(3.5)	(6.0)

The above consolidated statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	NOTES	2017 $	2016 $
Current assets			
Cash and cash equivalents	8	7,711,840	183,401
Trade and other receivables	9	395,737	269,850
Inventories	10	961,300	961,695
Other current assets	11	405,915	454,106
Total current assets		**9,474,792**	**1,869,052**
Non-current assets			
Other financial assets	12	9,969,788	9,991,696
Exploration and evaluation	14	48,596,996	48,715,448
Property, plant and equipment	13	22,468	64,199
Oil and Gas assets	15	23,670,848	17,147,690
Total non-current assets		**82,260,100**	**75,919,033**
Total assets		**91,734,892**	**77,788,085**
Current liabilities			
Trade and other payables	16	3,476,008	4,533,194
Interest Bearing Liabilities	17	2,057,799	12,872,618
Convertible note coupons		829,716	-
Provisions	18	66,569	109,934
Other current liabilities		442,558	178,806
Total current liabilities		**6,872,650**	**17,694,552**
Non-current liabilities			
Convertible Notes	17	26,388,489	-
Provisions	18	9,422,738	9,261,340
Total non-current liabilities		**35,811,227**	**9,261,340**
Total liabilities		**42,683,877**	**26,955,892**
Net assets		**49,051,015**	**50,832,193**
Equity			
Issued Capital	19	91,301,423	87,435,000
Reserves	21	5,188,617	(638,474)
Retained earnings/ (accumulated losses)		(47,439,025)	(35,964,333)
Total equity attributable to owners of Armour Energy		**49,051,015**	**50,832,193**

The above consolidated statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	ISSUED CAPITAL	RETAINED EARNINGS	FIN. ASSETS REVALUATION RESERVE	CONVERTIBLE NOTE RESERVE	PERFORMANCE SHARES RESERVE	PERFORMANCE RIGHTS RESERVE	OPTION RESERVE	TOTAL EQUITY
Balance at 1 July 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**
Loss for the year	-	(11,474,692)	-	-	-	-	-	(11,474,692)
Total comprehensive income for the year	**-**	**(11,474,692)**	**-**	**-**	**-**	**-**	**-**	**(11,474,692)**
Value of conversion rights - convertible notes, net of issue costs	-	-	-	4,944,695	-	-	-	4,944,695
Share based payments	-	-	-	-	-	-	882,396	882,396
Shares issued during the year	1,000,002	-	-	-	-	-	-	1,000,002
Litigation settlement shares sold	3,049,111	-	-	-	-	-	-	3,049,111
Share issue costs	(182,690)	-	-	-	-	-	-	(182,690)
Balance at 30 June 2017	**91,301,423**	**(47,439,025)**	**(4,297,300)**	**4,944,695**	**125,000**	**125,000**	**4,291,222**	**49,051,015**

The above consolidated statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	NOTES	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers		569,350	-
Payments to suppliers and employees		(8,219,954)	(7,726,765)
Payments for production		(165,414)	-
Interest paid		-	(819,111)
Interest received		106,670	80,881
Other income		13,068	72,688
Net cash (outflow) from operating activities	**22(a)**	**(7,696,280)**	**(8,392,307)**
Cash flows from investing activities			
Payments for property, plant and equipment		(1,851)	(2,051)
Reduction in security deposits		72,820	6,048,319
Investments in security deposits		(75,000)	(12,744,237)
Payments for exploration and evaluation assets		(663,531)	(1,739,355)
Payments for Oil and Gas assets		(6,050,375)	(8,627,182)
Research and Development funds in relation to exploration assets		67,363	1,366,478
Research and Development funds in relation to oil and gas assets		457,516	-
Net cash (outflow) from investing activities		**(6,193,058)**	**(15,698,028)**
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		4,067,383	3,514,462
Proceeds from issue of convertible notes		20,397,196	-
Payment of convertible note interest		(629)	-
Proceeds from loan facilities		1,485,220	18,276,087
Transaction costs on the issue of shares and notes		(1,220,799)	(1,654)
Repayment of borrowings		(3,310,594)	(6,048,319)
Net cash inflow from financing activities		**21,417,777**	**15,740,576**
Net increase (decrease) in cash and cash equivalents		7,528,439	(8,349,759)
Cash and cash equivalents at the beginning of the financial year		183,401	8,533,160
Cash and cash equivalents at end of year	8	**7,711,840**	**183,401**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2017 was authorised for issue in accordance with a resolution of the directors on 28 September 2017.

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 controlled entities, and is presented in Australian dollars.

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial 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 2017 the Group generated a consolidated loss of $11,474,692 and incurred operating cash outflows of $7,696,280. As at 30 June 2017 the Group had cash and cash equivalents of $7,711,840, net current assets of $2,602,142, and net assets of $49,051,015.

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. Reducing its level of capital expenditure through farm-outs and/or joint ventures;
3. Reducing its working capital expenditure;
4. Applying for eligible Research and Development tax refund receipts;
5. Generating cash flows from Oil and Gas assets; and
6. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

1. On 26 April 2017 the Group 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 $10 million proposed increase in the Convertible Notes issue was approved by shareholders at an Extraordinary General Meeting on 31 May 2017 and also approved by the Note Trustee and by existing Noteholders. A total of $32.7 million worth of Convertible Notes has now been subscribed for to date with a further $12.3 million expected to be raised by the end of the December 2017 quarter;
2. On 14 September 2017, the Company announced that it is seeking to raise approximately $4.25 million by undertaking a pro-rata non-renounceable entitlement offer (Entitlement Offer) of approximately 56,002,662 new fully paid ordinary shares with an offer ratio of 1 new share for every 6 shares held at the offer date, at an offer price of 7.6 cents per new share. The Entitlement Offer is fully underwritten by Bizzell Capital Partners Pty Ltd, an entity controlled by Armour Director Stephen Bizzell.

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, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

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 2016:

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 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 2015-5	Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exception	1 January 2016	1 July 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2017. On evaluating these standards and interpretations, management do not expect a material impact upon the financial statements on their adoption.

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.

REFERENCE	TITLE	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR THE GROUP
AASB 15	Revenue from Contracts with Customers	1 January 2018	1 July 2017
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1 January 2018	1 July 2017
AASB 2016-3	Amendments to Australian Accounting Standards -Clarifications to AASB 15	1 January 2018	1 July 2017
AASB 16	Leases	1 January 2019	1 July 2019
AASB 2016-1	Amendments to Australian Accounting Standards - Recognition of Deferred Tax for Unrealised Losses	1 January 2017	1 July 2017
AASB 2016-2	Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107	1 January 2017	1 July 2017
AASB 2016-5	Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions	1 January 2018	1 July 2018
AASB 2016-6	Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018	1 July 2018
AASB 2017-1	Amendments to Australian Accounting Standards - Transfers of Investment Property. Annual improvements 2014-2016 Cycle and Other Amendments	1 July 2018	1 July 2018
AASB 2017-2	Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle	1 January 2017	1 July 2017

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

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) Foreign currencies

The consolidated financial statements are presented in Australian dollars, which is also the Group's functional currency and the Group's presentation currency. The Group does not have any foreign operations.

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss and other comprehensive income.

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) Business combinations

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.

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.

(e) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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".

(f) 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.

(g) 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.

(h) 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.

(i) 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 on the next page.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Group's convertible notes have been treated as a non-derivative financial liability. On recognition of the convertible note, the liability and equity components are identified and separately measured. The fair value of the liability component of the convertible notes is deducted from the fair value of the instrument as a whole, and the residual amount is recognised as an equity conversion right and not subsequently remeasured. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the notes.

(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.

(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.

(v) **Derivative financial instruments**
Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, and presented within operating profit.

Derivatives are classified as current or non-current depending on the expected period of realisation.

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.

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 25(e).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(j) Property, plant and equipment and oil and gas assets

Property, plant & equipment, and oil and gas assets 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, and oil and gas assets is depreciated over their useful life to the Group commencing from the time the asset is held ready for use.

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

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

Derecognition

Items of property, plant and equipment, and oil and gas assets are derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(l) Impairment of non-financial 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.

(m) 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.

(n) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

<u>**Employee benefits**</u>

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 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

iii. Defined contribution superannuation expense

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

(o) 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.

(p) 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.

(q) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) 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.

(s) 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.

Sale of goods

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

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).

(t) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(u) 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 statement of financial position.

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.

(v) 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.

(w) Comparatives

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) 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 2017, the facts and circumstances do not suggest that the carrying amount of an asset 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 2017 were $48,596,996 (2016: $48,715,448).

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.

Key judgements - Convertible notes

The Group's convertible notes have been treated as a financial liability, in accordance with the principles set out in AASB 9. The key criterion for liability classification is whether there is an unconditional right to avoid delivery of cash for another financial asset to settle the contractual obligation. The terms and conditions applicable to the convertible notes require the Group to settle the obligation in either cash, or in the Company's own shares.

The notes are convertible into ordinary shares of the parent entity, at the option of the holder, or repayable on 30 September 2019. The conversion rate is one share for each note held, but subject to adjustments for reconstructions of equity. Management determined that these terms give rise to a compound financial instrument having characteristics of both equity and liability. The initial fair value of the liability portion of the notes was determined using a market interest rate for an equivalent non-convertible note at the issue date. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity, net of income tax, and not subsequently remeasured.

Key judgements - provision for rehabilitation

The Group's restoration and abandonment obligations for the Surat Basin processing plant and associated exploration and production fields is treated as a non-current liability in accordance with AASB 137. The restoration and abandonment liability is valued by an independent expert in accordance with legislative requirements, and is reviewed at each reporting period. For the provision recognised at 30 June 2017, the facts and circumstances do not suggest that the carrying amount of the provision has changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 REVENUE AND OTHER INCOME

	2017 $	2016 $
(a) Sales revenue:		
- Sale of crude oil	618,276	-
Total sales revenue	**618,276**	**-**
(b) Interest revenue:		
- Deposits held with financial institutions	106,160	80,840
- Australian Taxation Office	510	41
- Department Natural Resources and Mines	127	-
Total interest revenue	**106,797**	**80,881**
(c) Other Income:		
- Fuel Tax Credit	14,306	-
- Insurance Recovery	-	72,586
- Profit/ (loss) on sale of fixed assets	(1,365)	102
Total Other Income	**12,941**	**72,688**

3 PROFIT / (LOSS)

	2017 $	2016 $
Finance cost		
- Interest expense	4,213	3,024
- Financing fees	1,396,318	1,536,286
- Convertible note coupons	1,484,187	-
- Convertible note issue costs	9,102	-
- Amortisation of convertible notes	490,578	-
- Unwinding of provision for contingent consideration	116,797	95,491
Depreciation		
- Office equipment	2,271	8,136
- Motor vehicle	23,818	28,176
- Plant and equipment	17,493	17,933
- Oil and Gas assets	584,323	371,414
Defined contribution superannuation expense	119,984	137,459
(Gain) loss on foreign exchange	(2,759)	(160,109)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 INCOME TAX EXPENSE

	2017 $	2016 $
(a) Component of income tax expense (benefit)		
Income tax expense (benefit) is made up of:		
Attributable to prior periods	-	-
Current tax	-	-
Deferred tax	-	(540,030)
	-	(540,030)
Components of tax expense on other comprehensive income comprise:		
Deferred tax	-	637,500
(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% (2016: 30%)	(3,442,407)	(5,824,187)
Add tax effect of:		
Deferred tax utilised following R&D cash back	192,456	500,789
Other items	345,074	104,511
Share based payments	264,719	95,503
Tax losses not recognised	2,603,757	4,333,138
Foreign exploration costs	23,678	418,631
Fines and penalties	12,723	-
	-	(371,615)
Less tax effect of:		
Permanent differences	-	(168,415)
Income tax expense/ (benefit)	-	(540,030)

(c) Reconciliation of net deferred tax

2017	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	12,490,005	569,528	-	-	-	13,059,533
Accruals/ provisions	135,753	(99,110)	-	-	-	36,643
Property, Plant & Equipment	13,082	-	-	-	-	13,082
Capital raising costs through P&L	322,185	(64,982)	-	-	-	257,203
Capital raising costs in equity	1,891	(703)	-	-	-	1,188
Provision for rehabilitation	1,066,702	312,135	-	-	-	1,378,837
Available for sale financial assets	956,518	(175,188)	-	-	-	781,330
Amortisation of Convertible Notes	-	147,173	-	-	-	147,173
Potential benefit at 30%	**14,986,136**	**688,853**	**-**	**-**	**-**	**15,674,989**
Deferred tax liability						
Exploration & Evaluation assets	(13,914,291)	(100,001)	-	-	-	(14,014,292)
Oil & Gas assets	(1,071,845)	(588,852)	-	-	-	(1,660,697)
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Potential benefit at 30%	**(14,986,136)**	**688,853**	**-**	**-**	**-**	**(15,674,989)**
Net deferred tax	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax assets not recognised			-	-	-	
Unused tax losses	14,443,794	8,679,190	-	-	-	23,122,984
Provision for rehabilition	1,040,451	-	-	-	-	1,040,451
Tax benefit at 30%	**4,645,274**	**2,603,757**	**-**	**-**	**-**	**7,249,031**

4 INCOME TAX EXPENSE (CONTINUED)

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**	**-**	**-**	**-**
Deferred tax assets not recognised						
Unused tax losses	-	14,443,795	-	-	-	14,443,795
Provision for rehabilitation	-	1,040,451	-	-	-	1,040,451
Tax benefit at 30%	**-**	**4,645,274**	**-**	**-**	**-**	**4,645,274**

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 2017 under COT.

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

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

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

(iii) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 DIVIDENDS AND FRANKING CREDITS

There were no dividends paid or recommended during the year or since the end of the year (2016: nil). There are no franking credits available to shareholders of Armour Energy Ltd (2016: nil).

6 REMUNERATION OF AUDITORS

BDO Audit Pty Ltd

	2017 $	2016 $
Audit services		
Audit and review of financial statements	61,000	47,500
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	15,028	40,207
	76,028	**272,908**

7 EARNINGS PER SHARE

(a) Earnings

	2017 $	2016 $
Earnings used to calculate basic and diluted EPS (After tax)	(11,474,692)	(18,873,927)

(b) Weighted average number of shares and options

	2017 NUMBER	2016 NUMBER
Weighted average number of ordinary shares outstanding during the year, used in calculating basic earnings per share	325,207,701	316,209,848
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	**325,207,701**	**316,209,848**

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

	2017 NUMBER	2016 NUMBER
Current assets		
Cash at bank and in hand	7,705,236	175,637
Other cash and cash equivalents	6,604	7,764
	7,711,840	**183,401**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 TRADE AND OTHER RECEIVABLES

	2017 $	2016 $
Trade receivables	105,365	56,012
GST Receivable	269,334	95,782
Other receivables	10,305	118,056
Pending cash calls - JV	10,733	-
	395,737	**269,850**

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.

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 2017 (2016: nil).

10 INVENTORIES

	2017 $	2016 $
Oil and Gas inventory		
Gas inventory	944,085	944,085
Oil inventory	3,087	-
Materials and consumables	14,128	17,610
	961,300	**961,695**

11 OTHER CURRENT ASSETS

	2017 $	2016 $
Prepayments	405,915	454,106
	405,915	**454,106**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 OTHER FINANCIAL ASSETS

	2017 $	2016 $
Security deposits	1,184,594	1,179,522
Financial assets at fair value through other comprehensive income	2,127,000	2,127,000
Financial Assurances	6,658,194	6,685,174
	9,969,788	**9,991,696**
Movements in financial assets at fair value through other comprehensive income		
Opening balance at 1 July	2,127,000	4,252,000
Fair value adjustments through other comprehensive income	-	(2,125,000)
	2,127,000	**2,127,000**

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 25(e) for fair value disclosures.

Security deposits and financial assurances are measured at amortised cost.

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 consolidated statement of financial position.

13 PROPERTY, PLANT AND EQUIPMENT

	2017 $	2016 $
Plant and equipment		
Gross value	89,664	89,664
Accumulated depreciation	(71,847)	(54,354)
	17,817	35,310
Motor Vehicles		
Gross value	140,878	140,878
Accumulated depreciation	(140,757)	(116,939)
	121	23,939
Office Equipment		
Gross value	61,540	59,689
Accumulated depreciation	(57,010)	(54,739)
	4,530	4,950
Total written down value	**22,468**	**64,199**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

RECONCILIATION OF CARRYING AMOUNTS AT THE BEGINNING AND END OF THE YEAR

	PLANT AND EQUIPMENT $	MOTOR VEHICLES $	OFFICE EQUIPMENT $	TOTAL $
Year ended 30 June 2017				
Opening net book amount	35,310	23,939	4,950	64,199
Additions	-	-	1,851	1,851
Depreciation charge	(17,493)	(23,818)	(2,271)	(43,582)
Closing net book amount	**17,817**	**121**	**4,530**	**22,468**

	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**

14 EXPLORATION AND EVALUATION ASSETS

	2017 $	2016 $
Exploration and evaluation	48,596,996	48,715,448
Movements in carrying amounts		
Balance at the beginning of the year	55,460,719	55,156,524
Additions	981,857	1,735,283
Research & Development grants relating to exploration	(67,363)	(1,366,478)
Exploration expenditure written off	(1,032,946)	(64,610)
	55,342,267	55,460,719
Provision for impairment	(6,745,271)	(6,745,271)
Balance at the end of the year	**48,596,996**	**48,715,448**
Movements in provision for impairment amounts		
Balance at the beginning of the year	(6,745,271)	-
Provision (raised)/released	-	(6,745,271)
Balance at the end of the year	**(6,745,271)**	**(6,745,271)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 EXPLORATION AND EVALUATION ASSETS (CONTINUED)

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 in the year ended 30 June 2016.

15 OIL AND GAS ASSETS

	2017 $	2016 $
Oil and Gas assets		
Cost	25,084,102	17,154,778
Accumulated Depreciation	(955,737)	(371,414)
R&D grants relating to Oil & Gas assets	(457,517)	-
	23,670,848	**16,783,364**
Development assets		
Development assets	-	364,326
	23,670,848	**17,147,690**
Movements in carrying amounts		
Balance at the beginning of the year	17,147,690	-
Additions	7,200,671	17,519,104
Prior year development assets capitalised	364,326	-
Depreciation charge	(584,323)	(371,414)
R&D grants relating to Oil and Gas assets	(457,516)	-
	23,670,848	**17,147,690**

16 TRADE AND OTHER PAYABLES

	2017 $	2016 $
Current liabilities		
Trade payables	2,030,376	4,006,518
Accrued expenses	1,445,632	526,676
	3,476,008	**4,533,194**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 INTEREST BEARING LIABILITIES

	2017 $	2016 $
Current Liabilities		
Interest bearing liabilities - secured		
DGR Loan Facility	2,057,799	12,872,618
	2,057,799	**12,872,618**
DGR Loan Facility		
Movements in carrying amounts		
Opening balance at 1 July	12,872,618	-
Principal	408,169	18,276,087
Conversion of loan into convertible notes	(9,400,000)	-
Repayments	(3,189,543)	(6,048,319)
Capitalised interest	1,366,555	644,850
Balance at 30 June	**2,057,799**	**12,872,618**
Bizzell Capital Partners Loan Facility		
Movements in carrying amounts		
Opening balance at 1 July	-	-
Principal	1,067,860	-
Conversion of loan into convertible notes	(1,000,000)	-
Repayments	(132,508)	-
Capitalised interest	64,648	-
Balance at 30 June	**-**	**-**
Convertible notes - current		
Movements in carrying amounts		
Opening balance at 1 July	-	-
Coupon interest accrued	1,448,576	-
Coupons repaid in cash	629	-
Coupons capitalised into notes	(618,231)	-
Balance at 30 June	**829,716**	-
Non-current Liabilities		
Convertible notes - secured		
Convertible Notes	26,388,489	-
Convertible notes - non current		
Movements in carrying amounts		
Face value of convertible notes issued for consideration	21,304,158	-
Issue costs of convertible note – liability component	(1,524,576)	-
Other equity securities – value of conversion rights, net of issue costs	(4,944,695)	-
Coupons capitalised into convertible notes	618,231	-
Amortisation of convertible notes	490,578	-
Amortisation of issue costs	44,793	-
Conversion of debt into convertible notes	10,400,000	-
Balance at 30 June	**26,388,489**	**-**

(a) Security disclosures

DGR Loan Facility

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. Refer to note 23(d) for details on the terms and conditions of the facility

17 INTEREST BEARING LIABILITIES (CONTINUED)

Convertible Notes

The Convertible Notes are secured over all assets of Armour Energy Ltd and have equal ranking security proportionally with the DGR Loan Facility.

The principal terms of the convertible Notes are as follows:

Number of notes issued:	32,322,470 (as at 30 June 2017)
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:	Conversion at any time at the convertible note holder's election into one ordinary share in Armour subject to usual adjustment mechanisms in certain circumstances.

(b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 25.

18 PROVISIONS

	2017 $	2016 $
Current Provisions		
Employee benefits	66,569	109,934
Non-current Provisions		
Employee benefits	44,601	-
Restoration and abandonment	6,603,722	6,603,722
Contingent consideration	2,774,415	2,657,618
	9,422,738	**9,261,340**
Restoration and abandonment		
Opening balance at 1 July	6,603,722	-
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**	**6,603,722**
Contingent consideration		
Opening balance at 1 July	2,657,618	-
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	116,797	95,491
Balance at 30 June	**2,774,415**	**2,657,618**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 PROVISIONS (CONTINUED)

PROVISION FOR EMPLOYEE BENEFITS

Provision for employee benefits represents amounts accrued for annual leave and long service 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.

The non-current provision includes the liability for long service leave not expected to be settled within 12 months of the reporting date. 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. Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service.

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.

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 from Origin Energy. 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.

19 ISSUED CAPITAL

(a) Issued and paid up capital

	2017 $	2016 $
336,015,972 (2016:322,858,077) ordinary shares fully paid	97,139,088	93,089,975
Share issue costs	(7,722,035)	(7,539,345)
Recognition of deferred tax asset relating to share issue costs	1,884,370	1,884,370
	91,301,423	**87,435,000**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 ISSUED CAPITAL (CONTINUED)

(b) Movements in ordinary share capital

DETAILS	NUMBER OF SHARES	$
Balance at 1 July 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**
AEGPAS share selldown ($0.076 per share - 01/09/16)	-	3,049,111
Placement allotment ($0.076 per share - 26/04/17)	13,157,895	1,000,002
Share issue costs	-	(182,690)
Balance 30 June 2017	**336,015,972**	**91,301,423**

[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.

(c) Options

As at 30 June 2017 there were 22,250,000 unissued ordinary shares of Armour Energy Ltd under option, held as follows:

- 550,000 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.
- 3,150,000 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.
- 3,150,000 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.
- 3,150,000 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.
- 1,500,000 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 2017) at an exercise price of 22 cents. The options vested immediately on grant, and expire 14 December 2019.
- 1,500,000 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 2017) at an exercise price of 27 cents. The options vested immediately on grant, and expire 14 December 2019.
- 1,500,000 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 2017) at an exercise price of 32 cents. The options vested immediately on grant, and expire 14 December 2019.
- 5,000,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued for commercial consideration during the year ended 30 June 2017) at an exercise price of 20 cents. The options vested immediately on grant, and expire 30 August 2018.
- 666,666 unlisted options to take up one ordinary share in Armour Energy Ltd (issued for commercial consideration during the year ended 30 June 2017) at an exercise price of 22 cents. The options vested immediately on grant, and expire 29 May 2020.
- 666,667 unlisted options to take up one ordinary share in Armour Energy Ltd (issued for commercial consideration during the year ended 30 June 2017) at an exercise price of 27 cents. The options vested immediately on grant, and expire 29 May 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 ISSUED CAPITAL (CONTINUED)

- 666,667 unlisted options to take up one ordinary share in Armour Energy Ltd (issued for commercial consideration during the year ended 30 June 2017) at an exercise price of 32 cents. The options vested immediately on grant, and expire 29 May 2020.
- 250,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued for board services during the year ended 30 June 2017) at an exercise price of 22 cents. The options vested immediately on grant, and expire 14 December 2019.
- 250,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued for board services during the year ended 30 June 2017) at an exercise price of 27 cents. The options vested immediately on grant, and expire 14 December 2019.
- 250,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued for board services during the year ended 30 June 2017) at an exercise price of 32 cents. The options vested immediately on grant, and expire 14 December 2019.

(d) Performance Shares

As at 30 June 2017 there was nil Performance Shares of Armour Energy Ltd on issue (2016: nil).

(e) Performance Rights

As at 30 June 2017 there was nil Performance Rights of Armour Energy Ltd on issue (2016: 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 and convertible notes 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.

20 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:

	2017 WAEP	2017 NO.	2016 WAEP	2016 NO.
Outstanding at the beginning of the year	$0.38	23,510,000	$0.63	20,480,000
Granted during the year	$0.27	5,250,000	$0.35	13,050,000
Exercised during the year	-	-	$0.10	(1,300,000)
Forfeited during the year	$0.50	(8,880,000)	$0.75	(7,620,000)
Expired during the year	$0.24	(4,630,000)	$0.10	(1,100,000)
Outstanding at the end of the year	**$0.16**	**15,250,000**	**$0.38**	**23,510,000**
Exercisable at the end of the year	**$0.15**	**8,950,000**	**$0.43**	**10,460,000**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 SHARE-BASED PAYMENTS (CONTINUED)

In 2017, there were 5,250,000 share options issued to employees and Director's under the employee share option plan (2016: 13,050,000).

(c) Other option issues

The following table illustrates the number (no.) of, and movements in, other options issued for commercial consideration during the year:

	2017 NO.	2016 NO.
Granted during the year	7,000,000	-
Outstanding at the end of the year	**7,000,000**	**-**

Options granted for Commercial consideration during the year include:

- 5,000,000 unlisted options to take up one ordinary share in Armour Energy Ltd at an exercise price of $0.20. The options were granted to Bizzell Capital Partners as an underwriting fee for nil cash consideration pursuant to a capital raising mandate dated 23 August 2016.
- 2,000,000 unlisted options to take up one ordinary share in Armour Energy Ltd at various prices (refer to note 3 for details). The options were granted to MH Carnegie in lieu of any fees for their consent to be provided for the recently announced increase in the proposed issue of convertible notes, consent to be provided for amendments to their redemption rights, and in lieu of the requirement for the Company to issue options for a further MH Carnegie nominee to the Board.

(d) 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 2017 and 2016.

	2017	2016
Employee share options		
Weighted average exercise price	$0.27	$0.35
Weighted average life of the option	2.93 years	5.00 years
Underlying share price	$0.074 - $0.078	$0.08
Expected share price volatility	109.31% - 193.10%	124.770%
Risk free interest rate	1.65% - 2.00%	1.81%
Number of options issued	5,250,000	13,050,000
Value (Black-Scholes) per option	$0.025 - $0.066	$0.055 - $0.064
Total value of options issued	**$313,803**	**$778,935**

	2017	2016
Employee share options		
Share based payments expense recognised in statement of profit or loss and other comprehensive income	$313,803	$121,066
Share based payments expense to be recognised in future periods	-	$657,869
	$313,803	**$778,935**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 SHARE-BASED PAYMENTS (CONTINUED)

	2017	2016
Other options		
Weighted average exercise price	$0.22	-
Weighted average life of the option	2.07 years	-
Underlying share price	$0.074 - $0.078	-
Expected share price volatility	109.31% - 176.10%	-
Risk free interest rate	1.65% - 1.88%	-
Number of options issued	7,000,000	-
Value (Black-Scholes) per option	$0.029 - $0.048	-
Total value of options issued	**$305,343**	**-**

	2017	2016
Other options		
Share based payments expense recognised in statement of profit or loss and other comprehensive income	$305,343	-
Share based payments expense to be recognised in future periods	-	-
	$305,343	**-**

The Company has a long history of share transactions by which to gauge the Company's share price volatility, and this data provides some indication of the expected future volatility of the Company's share price. The share price volatility is measured by collating the historical share prices over a 2 year period prior to the date of the option issue. The relative percentage of each share price movement against the share price, determines the combined volatility over the period.

21 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.

	2017 $	2016 $
Balance 1 July	(4,297,300)	(2,809,800)
Revaluation - gross	-	(2,125,000)
Deferred tax	-	637,500
Balance 30 June	**(4,297,300)**	**(4,297,300)**

(c) Convertible Note Reserve

Convertible notes are measured at amortised cost using the effective interest rate method. The Group's convertible notes have been treated as a non-derivative financial liability, and on recognition of the convertible note, the liability and equity components are identified and separately measured. The fair value of the liability component of the convertible notes is deducted from the fair value of the instrument as a whole, and the residual amount is recognised as an equity conversion right and not subsequently remeasured.

This equity conversion right is treated as a convertible note reserve until such time as the right is either converted into share capital or paid in cash.

22 CASH FLOW INFORMATION

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

	2017 $	2016 $
Profit (Loss) after income tax	(11,474,692)	(18,873,927)
Share based payments	882,396	277,130
Depreciation and amortisation	627,905	425,659
Exploration expenditure written off/ impaired	1,032,946	6,809,881
Convertible note interest paid in notes	618,231	-
Expenses classified as financing activities	1,212,471	-
Financing fees capitalised to loan	1,369,903	644,850
Employee benefits settled in shares	-	42,572
Expenses classified as investing activities	(309,132)	-
Change in operating assets and liabilities*		
(Increase) decrease in trade and other receivables	39,536	(110,521)
(Increase) decrease in other current assets	(420,367)	6,500
(Increase) decrease in deferred tax assets	-	(540,030)
Increase (decrease) in trade and other payables	(1,436,875)	3,391,470
(Decrease) increase in provisions	161,398	(465,891)
Net cash inflow (outflow) from operating activities	**(7,696,280)**	**(8,392,307)**

*Net of amounts relating to oil and gas, and exploration and evaluation assets.

Equity settled share based payment transactions are disclosed in note 20. Conversion of debt and interest expense to convertible notes is disclosed in note 17. Apart from the above, there are no other non-cash financing and investing activities to disclose.

23 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:

	2017 $	2016 $
Short term benefits	1,109,933	1,383,749
Post employment	46,273	80,166
Share based payments	455,062	260,936
	1,611,268	**1,724,851**

(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:

REPLATED PARTY		SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	OTHER TRANSACTIONS WITH RELATED PARTIES
DGR Global Ltd (i)	2017	-	456,000	-
	2016	-	456,000	-
Bizzell Capital Partners (ii)	2017	-	916,285	-
	2016	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 RELATED PARTY TRANSACTIONS (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 (2016: $38,000). For the year ended 30 June 2017 $456,000 (2016: $456,000) was paid or payable to DGR Global Ltd for the provision of the Services. The total amount outstanding at year end was $39,841 (2016: $142,506).

DGR Global Ltd held 89,141,967 convertible notes totalling $9,805,616 as at 30 June 2017, purchased on the same terms and conditions as other noteholders.

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

(d) Loans from Related Parties

In the prior financial year, 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 30 September 2019 (the termination date), and is fully secured at an interest rate of 15 per cent per annum. The total amount outstanding at year end was $2,057,799 (2016: $12,872,618). The transactions associated with the financing facility are detailed below.

TRANSACTION	2017	2016
DGR Finance Facility		
Interest - paid in cash	-	451,856
Interest - capitalised to loan	1,366,555	644,850
Loan establishment fee	-	172,727
	1,366,555	**1,269,433**

24 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:

	2017 $	2016 $
Less than 12 months	84,551,587	27,043,899
Between 12 months and 5 years	14,471,940	35,699,876
	99,023,527	**62,743,775**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 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 consists of deposits with banks, receivables, other financial assets, payables, borrowings and convertible notes.

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-2), ANZ (local currency short term rating A-1+) and Westpac (local currency short term rating A-1+).

Financial assurances are held with both Westpac and Macquarie Bank.

(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, with the exception of convertible notes, are due within 12 months.

Interest payable on convertible notes is due in March and September each year. The convertible notes mature on 30 September 2019.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Financing arrangements

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

	2017 $	2016 $
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 2019 (the termination date). The interest rate is 15% 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.

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:

2017	FLOATING FIXED INTEREST RATE $	FIXED INTEREST RATE $	NON-INTEREST BEARING $	TOTAL CARRYING AMOUNT $	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
(i) Financial assets					
Cash and cash equivalents	7,711,840	-	-	7,711,840	-
Trade and other receivables	-	-	395,738	395,738	-
Available for sale financial assets	-	-	2,127,000	2,127,000	-
Security Deposits and Financial assurances	-	-	7,842,789	7,842,789	-
Total financial assets	**7,711,840**	**-**	**10,365,527**	**18,077,367**	**-**
(ii) Financial liabilities					
Trade and other payables	-	-	(3,476,009)	(3,476,009)	-
Borrowings	-	(2,057,799)	-	(2,057,799)	15.00
Convertible notes	-	(27,218,206)	-	(27,218,206)	15.00
	-	**(29,276,005)**	**(3,476,009)**	**(32,752,014)**	**15.00**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 FINANCIAL RISK MANAGEMENT (CONTINUED)

2016	FLOATING FIXED 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 and Financial assurances	-	-	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**

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 2017 the effect on profit and equity as a result of changes in the interest rate at that date would be as follows:

	2017 $	2016 $
Change in profit and equity		
- Increase in interest rate by 1%	77,118	1,834
- Decrease in interest rate by 1%	(77,118)	(1,834)

(e) Fair Value

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 30 June 2017.

	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	LEVEL 4 $
2017 Financial assets (liabilities) at fair value through other comprehensive income	2,127,000	-	(26,388,489)	(24,261,489)
2016 Financial assets (liabilities) at fair value through other comprehensive income	2,127,000	-	-	2,127,000

With the exception of convertible notes, 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 fair value of the liability component of convertible notes is based on discounted cash flows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk. The following is quantitative information about the significant unobservable inputs used in level 3 fair value measurements and how they impact fair value:

- Risk adjusted discount rate: 22% - an increase in the risk adjusted discount rate of 100bps would decrease fair value by $263,885; a decrease in the risk adjusted discount rate of 100bps would increase fair value by $263,885.

Discount rates for the convertible notes are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2017		2016	
	CARRYING AMOUNT $	FAIR VALUE $	CARRYING AMOUNT $	FAIR VALUE $
Convertible notes	32,322,390	27,623,497	-	-

Financial assets at fair value through other comprehensive income are measured based on quoted securities.

26 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.

For the year ended 30 June 2017, Management identifies the Group as having one reportable segment, being the exploration and development of shale oil and gas in Australia. However, going forward the Group will have two reportable segments, being the production of oil, gas, LPG and condensate in the Surat Basin, Queensland, and the exploration and development of shale oil and gas in Australia, and will report on those segments accordingly.

The chief decision makers 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.

27 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 2017.

28 CONTROLLED ENTITIES

CONTROLLED ENTITIES	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITY	PRINCIPAL PLACE OF BUSINESS	PERCENTAGE OWNED 2017	PERCENTAGE OWNED 2016
Parent Entity:					
Armour Energy Limited	Australia	Petroleum Exploration	Northern Australia	100%	100% 100%
Subsidiaries of Armour Energy:					
Ripple Resources Pty Ltd	Australia	Mineral Exploration	Northern Australia		
Armour Energy (Victoria) Pty Ltd	Australia	Petroleum Exploration	Victoria	100%	100% 100%
Armour Energy (Surat Basin) Pty Ltd	Australia	Oil and gas production	Queensland	100%	100%
AEGPAS Pty Ltd	Australia	Dormant Company	Queensland	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 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 1.

	2017 $	2016 $
Statement of Financial Position		
Current assets	7,981,870	505,460
Non-current assets	71,587,174	69,852,859
	79,569,044	**70,358,319**
Current liabilities	4,154,065	16,116,327
Non-current liabilities	26,429,062	-
	30,583,127	**16,116,327**
Net Assets	**48,985,917**	**54,241,992**
Issued capital	91,301,412	87,434,990
Convertible Note Reserve	4,944,695	-
Available-for-sale financial assets	(4,297,300)	(4,297,300)
Option reserve	4,291,222	3,408,826
Performance shares	125,000	125,000
Performance Options	125,000	125,000
Retained earnings	(47,504,112)	(32,554,512)
Total shareholders' equity	**48,985,917**	**54,242,004**
Profit or loss for the year	**15,135,076**	**15,627,306**
Total comprehensive income	**15,135,076**	**17,752,306**

(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 2017 (2016: nil).

(d) Contingent liabilities

The parent entity has no contingent liabilities, other than those disclosed in note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 SIGNIFICANT EVENTS AFTER BALANCE DATE

CONVERTIBLE NOTES

On 31 August 2017, Armour issued a further 2,136,364 convertible notes on the same terms and conditions as disclosed in note 17.

RIGHTS ISSUE

On 15 September 2017, Armour announced a non-renounceable entitlement offer (Entitlement Offer) to eligible shareholders on the basis of 1 new fully paid ordinary share for every 6 shares held (New Shares), at an issue price of $0.076 per share (Issue Price).

The Entitlement Offer is fully underwritten by Bizzell Capital Partners Pty Ltd, an entity controlled by Armour Director Stephen Bizzell. Full details of the underwriting arrangements are outlined in the Offer Booklet which will be sent to eligible shareholders and published as a market announcement.

Assuming no existing options or Convertible Notes on issue in the Company are exercised or converted, approximately 56,002,662 New Shares will be made available under the Entitlement Offer. New Shares issued pursuant to the Entitlement Offer will rank equally with all existing shares on issue.

The Entitlement Offer is seeking to raise approximately $4,256,202 (before costs). It is proposed that the funds raised from the Entitlement Offer and Additional Placement will be used to fund the re-commissioning and re-start activities at the Company's Kincora Project in Queensland, fund other growth initiatives, pay creditors, provide additional working capital, and fund the costs of the Entitlement Offer.

KANYWATABA BLOCK – UGANDA

On 19 September 2017, Armour announced that it had been granted the exploration licence for the Kanywataba Block in the Albertine Graben in Uganda.

The exploration licence is 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.

Armour 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. DGR has now funded US$873,000 towards the Performance Guarantee and a US$442,000 payment to complete the grant of the lease and has agreed to meet expenditure of US$1.98m for years 1 and 2 exploration commitments.

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' DECLARATION

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 2017 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 2017 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 2017.

On behalf of the board

Nicholas Mather
Executive Chairman
Brisbane

28 September 2017

INDEPENDENT AUDITOR’S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the members of Armour Energy Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

We have audited the financial report of Armour Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

i. Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

ii. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

BASIS FOR OPINION

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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CARRYING VALUE OF EXPLORATION AND EVALUATION ASSETS

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
The company carries significant exploration and evaluation assets of $48,596,996 as at 30 June 2017 as disclosed in note 14 to the financial statements. The carrying value of exploration and evaluation assets represents a significant asset of the company and assessing whether facts or circumstances exist to suggest that impairment indicators were present, and if present, whether the carrying amount of this asset may exceed its recoverable amount was considered a key audit matter. This assessment involves significant judgement applied by management. Following the announcement by the Northern Territory Government that a moratorium on hydraulic fracturing of onshore unconventional reservoirs including the use of hydraulic fracturing for exploration, extraction, production and including Diagnostic Fracture Injection Testing (DFITs) will remain in place until an inquiry is completed, the group carried out an impairment review of the Northern Territory exploration and evaluation assets.	We evaluated management's assessment of each impairment indicator in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*, our testing included amongst other things: • Obtaining from management a schedule of areas of interest held by the Group and selected a sample of tenements and assessed as to whether the Group had rights to tenure over the relevant exploration areas by obtaining supporting documentation such as license agreements and also considered whether the Group maintains the tenements in good standing • Reviewing budgets and evaluating assumptions made by the entity to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the areas of interest were planned • Assessing management's determination that exploration activities have not yet progressed to the point where the existence or otherwise of an economically recoverable mineral resource may be determined through discussions with the Group's Directors, and review of the Group's ASX announcements and other relevant documentation • Reviewing the directors' assessment of the carrying value of the exploration and evaluation costs, ensuring that management have considered the effect of potential impairment indicators, commodity prices and the stage of the Group's project also against the standard of AASB 6 • Critically challenging management's assertion that the moratorium on hydraulic fracturing of onshore unconventional reservoirs including the use of hydraulic fracturing for exploration, announced on 14 September 2016, has no impact on their projects, which are focused on conventional targets.

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RECOVERABILITY OF OIL AND GAS ASSETS

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
The company carries significant oil and gas assets of $23,670,848 as at 30 June 2017 as disclosed in note 15 to the financial statements. The carrying value of oil and gas assets represents a significant asset of the company and assessing whether facts or circumstances exist to suggest that impairment indicators were present, and if present, whether the carrying amount of this asset may exceed its recoverable amount was considered a key audit matter. This assessment involves significant judgement applied by management.	We enquired with management if any impairment indicators in accordance with AASB 136 *Impairment of Assets* have been identified across the Group's oil and gas projects. We obtained the discounted cash flow model prepared by the entity to assess impairment. During the course of our audit, among other testing, we: • Assessing the Group's discounted cash flow ('DCF') model which calculates the recoverable amount of the Group's assets, in order to determine if any asset impairment or impairment reversals were required • Evaluating whether forecast cash flows used in the impairment model were consistent with the most recent plan formally approved by directors • Evaluating the Group's assumptions and estimates used to determine the recoverable amount of its assets, including those relating to production, costs, discount rates and inflation rates • Checking the mathematical accuracy of the cash flow forecasts and impairment model • Performing sensitivity analysis to stress test the key assumptions used in the 'Value in Use' models, including revenue growth, terminal growth rates and discount rates used

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OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS 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 preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the

Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

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REPORT ON THE REMUNERATION REPORT

OPINION ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 19 to 27 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Armour Energy Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

RESPONSIBILITIES

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.

T J Kendall
Director

BDO Audit Pty Ltd
28 September 2017

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