



# QUARTERLY ACTIVITIES REPORT

FOR THE PERIOD ENDED 30 SEPTEMBER 2017

## ASX CODE: AJQ

## SHARES ON ISSUE

394,175,941

## CONVERTIBLE NOTES ON ISSUE

321,700,950

## MARKET CAPITALISATION<sup>1</sup>

\$31.5m (at 8 cents per share)

(1. undiluted for options and convertible notes)

## DIRECTORS

Nicholas Mather (Chairman)

William Stubbs

Roland Sleeman

Stephen Bizzell

Matthew Beach

## CHIEF EXECUTIVE

Roger Cressey

## COMPANY SECRETARY

Karl Schlobohm

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## HIGHLIGHTS

- **Kincora Project – Restart program continues to advance.**
- **Kincora Project – First gas sales milestone achieved.**
- **Uganda project – Exploration licence granted, funding arrangement with DGR Global.**
- **Capital Raising Update – Fully under-written rights issue closed end of the quarter successfully raising \$4.25 million. Conditional funding support from MH Carnegie for a further \$5 million. Further \$985,000 raised via Convertible Notes during the quarter.**
- **Executive Appointments announced.**

## PROJECT ACTIVITIES

### Kincora Project - Restart Program

During the quarter Armour Energy Ltd (“Armour” or “the Company”) continued its consolidated multi-phase Kincora restart program as previously advised to the market. Key milestones achieved during the quarter included:

- Re-commissioning of the dry gas circuit of the Kincora Gas Plant was an important first step toward the commencement of gas sales;
- Rectification work on the Kincora to Wallumbilla pipeline (PPL3) as identified by an intelligent in-line inspection has been completed;
- Installation of a new end of line facility at Wallumbilla;
- Confirmation of sales quality gas out of the Newstead storage facility; and
- Continued planning for the drilling of new wells to target undeveloped reserves, and increase field gas production to have the Kincora plant operating at maximum capacity.

The next stage of Phase 1 of the Kincora restart project will involve ramp-up of gas production from existing wells which are currently shut-in. This gas will be treated by the wet gas circuit (ie. the LPG and condensate systems) at the Kincora Gas Plant. Restart work on the wet gas circuit is underway and is expected to be completed by December 2017 (see **Figure 1**). Once the commissioning of the wet gas circuit at Kincora and the balance of field infrastructure (ie. gathering flowlines and field compressors) is completed, the Company plans to increase gas production to 9 TJ/day.

As previously reported, Phase 2 of the restart project will involve drilling of new wells plus workovers and stimulations of existing wells. This, together with any necessary further work on the Kincora Gas Plant, will allow gas production to be ramped up to 20 TJ/day over the next 12 to 18 months.

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

**Figure 1 – Kincora restart program**

## Kincora Project – First Gas Sales Milestone Achieved

Just prior to the end of the quarter Armour commenced commercial sales of gas from the Company's Kincora Project.

Commenting on this significant achievement for the Company, CEO Roger Cressey said, "We are delighted to have commenced first sales gas from the Kincora Project. This is a major milestone for Armour and a further step in our evolution toward becoming a significant oil and gas producer in the Roma region. The Armour team and its contractors are proud to have restarted production from this long-established gas province, particularly at a time when the Australian eastern seaboard gas market is facing an acute supply shortfall. This is just the beginning for Armour in terms of gas production, and we look forward to contributing to the local region and more broadly to the east coast gas market as a steady and growing supplier for the long term."

Gas is presently being produced from the Newstead gas storage facility, processed and compressed at Kincora, then delivered to market through the downstream pipeline facilities. At the time of reporting, the Newstead storage facility currently holds approximately 2.2 PJ of treated gas that currently requires only minimal re-processing (dehydration) to ensure compliance with the sales gas specification.

## Uganda project – Exploration licence granted, funding arrangement with DGR Global

During the quarter, Armour concluded negotiations with the Government of Uganda and was granted the exploration licence for the Kanywataba block on the signing of the Production Sharing Agreement with the Government of Uganda.

The Kanywataba block is located at the southern end of Lake Albert in the Albertine Graben where approximately 115 wells have been drilled, and 101 wells encountered hydrocarbons delivering an 88% success rate on economic discoveries. To date, discoveries in the Albertine Graben total approximately 6.5 billion barrels of oil initially in place, with estimated recovery being 1.5 billion barrels and oil being light to medium gravity (30-35 API) with associated wet and dry gas. The Albertine Graben is a Rift Basin, a geological formation known to host a third of the world's oil reserves and similar geology to the Gippsland Basin in Victoria, Australia. The Albertine Graben is considered to provide world class reservoir qualities, multiple reservoirs and less than 40% of the Albertine Graben has been evaluated. Production licenses have been awarded to Total, Tullow and CNOOC on blocks to the north of the Kanywataba block, on the east coast of Lake Albert.

Based on the Highly Prospective Oil Columns Kanywataba Block internal report dated 13 September 2017, Armour has assessed the prospectivity of the block and estimates low, best and high unrisked prospective oil resource to range from 646 to 969 MMBBLS of oil in place across 7 prospects each with stacked reserves. Armour considers the main resource risk to be potential loss of hydrocarbon charge, and on that basis considers prospects 2 and 3 to represent the most prospective targets.

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

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.

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

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

Armour Energy has agreed, subject to Government of Uganda consent, to transfer the tenement to a project specific company in which Armour will have a 16.82% interest and DGR Global, a major shareholder in Armour, shall hold the other 83.18% interest in the transferee entity. Until the time of transfer to a project specific company, or if such transfer does not occur, Armour and DGR Global have agreed that the beneficial interest in the Kanywataba Block will be split 16.82% Armour and 83.18% DGR Global.

In consideration for the beneficial interest split DGR Global has agreed to meet tenement expenditure and work program commitments for the first 2 year period of exploration and indemnify Armour for these costs. The expenditure commitments agreed to by DGR are to fund US\$873,000 for a Performance Guarantee, US\$442,000 to complete the grant of the lease and US\$1.98m for years 1 and 2 exploration commitments.

## CORPORATE ACTIVITIES

### Capital Raising Program – Update

#### Rights Issue

During the quarter, Armour launched its pro-rata non-renounceable entitlement offer of ordinary shares to existing shareholders on a 1 for 6 entitlement basis at an issue price of 7.6c per share to raise approximately \$4.25 million.

The Entitlement Offer closed after the end of the quarter at 5.00pm (AEST) on 13 October 2017 with valid applications for entitlements and applications under the shortfall facility received for approximately \$4.0 million, representing a take up of approximately 94%. The Entitlement Offer was fully underwritten by the lead manager to the capital raising program, Bizzell Capital Partners Pty Ltd, an entity associated with Armour Director, Mr Stephen Bizzell.

The shortfall of approximately \$0.25 million was placed pursuant to a priority sub-underwriting agreement with major shareholder, DGR Global Limited.

Given the strong demand from investors and the opportunity to use additional funds to enable an accelerated ramp-up of the Kincora project gas and liquids production, and also provide funding towards other growth initiatives, the Company has decided to undertake a further placement to raise up to \$1 million before costs on the same terms as the Entitlement Offer at a price of \$0.076 per share.

As a result of the above arrangements, the Company advises that the debt facility with DGR Global, established in 2015 as part of the Kincora Project acquisition arrangements, has now been fully extinguished and the security previously granted in favour of DGR Global will now be released.

#### Convertible Notes

Armour entered into a revised agreement with MH Carnegie & Co during the quarter 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 (other than gas stored in the Newstead Gas Storage facility) 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.

During the quarter, Armour received Convertible Note subscriptions of \$985,000, bringing the aggregate value of issued convertible notes to \$32.7 million out of the approved convertible note issue size of \$45 million.

## Executive Appointments

During the quarter, the Board advised the market of the recent executive appointments of:

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



On behalf of the Board  
Karl Schlobohm  
Company Secretary

## Competent Persons Statement

### Consents

Reported resources are in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines and under the supervision of Mr Luke Titus, Chief Geologist, Armour Energy Limited. Mr Titus qualifications include a Bachelor of Science from Fort Lewis College, Durango, Colorado, USA and he is an active member of AAPG and SPE. He has over 20 years of relevant experience in both conventional and unconventional oil and gas exploration & production in the US and multiple international basins. Mr Titus meets the requirements of qualified petroleum reserve and resource evaluator as defined in Chapter 19 of the ASX Listing Rules and consents to the inclusion of this information in this release.

### SPE-PRMS

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

PRMS provides guidelines for the evaluation and reporting of petroleum reserves and resources.

### Under PRMS

"Contingent Resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is

dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

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

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

#### **Forward Looking Statement**

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

Armour makes no representations as to the accuracy or completeness of any such statement of projections or that any forecasts will be achieved.

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.

## APPENDIX 1

### INTERESTS IN TENEMENTS FOR THIS QUARTER

TYPE	LOCATION	NAME	OWNER	INTEREST
<b>Held Throughout Quarter</b>				
PL14	Queensland		AE (SB) P/L	100%
PL 53	Queensland		AE (SB) P/L	100%
PL 70	Queensland		AE (SB) P/L	100%
PL 511	Queensland		AE (SB) P/L	100%
PL 227	Queensland		AE (SB) P/L	100%
PPL 3	Queensland		AE (SB) P/L	100%
PPL 20	Queensland		AE (SB) P/L	100%
PPL 63	Queensland		AE (SB) P/L	100%
PL 28	Queensland		AE (SB) P/L	46.25%
PL 69	Queensland		AE (SB) P/L	46.25%
PL 89	Queensland		AE (SB) P/L	46.25%
PL 320	Queensland		AE (SB) P/L	46.25%
PL 11W	Queensland		AE (SB) P/L	46.25%
PL 12W	Queensland		AE (SB) P/L	46.25%
PL 11(SCEE)	Queensland		AE (SB) P/L	25%
PL 21	Queensland		AE (SB) P/L	100%
PL 22	Queensland		AE (SB) P/L	100%
PL 27	Queensland		AE (SB) P/L	100%
PL 71(P)	Queensland		AE (SB) P/L	100%
PL 71(E)	Queensland		AE (SB) P/L	80%
PL 264	Queensland		AE (SB) P/L	100%
PL 30	Queensland		AE (SB) P/L	90%
PL 512	Queensland		AE (SB) P/L	84%
PPL 22	Queensland		AE (SB) P/L	69%
ATP 647	Queensland		AE (SB) P/L	100%
ATP 754	Queensland		AE (SB) P/L	50%
ATP 1190	Queensland		AE (SB) P/L	50.64%
ATP1190(B)	Queensland		AE (SB) P/L	24.748%
EPP 171	Northern Territory	Abner Range	Armour Energy Ltd	100%
EPP 174	Northern Territory	Robinson River 2	Armour Energy Ltd	100%
EPP 176	Northern Territory	Ryans Bend	Armour Energy Ltd	100%
ATP 1087	Queensland	South Nicholson	Armour Energy Ltd	100%
EPP 190	Northern Territory	Calvert	Armour Energy Ltd	100%
EPP 191	Northern Territory	Wallhollow	Armour Energy Ltd	100%



TYPE	LOCATION	NAME	OWNER	INTEREST
<b>Held Throughout Quarter</b>				
EPP 192	Northern Territory	Wollogorang	Armour Energy Ltd	100%
PEP 169	Victoria	Moreys	Lakes Oil NL	51%
PEP 166	Victoria	Holdgate	Lakes Oil NL	25%
PRL2	Victoria		Lakes Oil NL	15%
EL 30817	Northern Territory	Birrindudu	Ripple Resources P/L	100%
EL 30818	Northern Territory	VRD	Ripple Resources P/L	100%
EL 30494	Northern Territory	Statler & Waldorf	Ripple Resources P/L	100%
EPM 19833	Queensland	Bowthorn	Ripple Resources P/L	100%
EPM 19835	Queensland	Shadforth East	Ripple Resources P/L	100%
EPM 19836	Queensland	Shadforth	Ripple Resources P/L	100%
EPM 25504	Queensland	Argyle Creek	Ripple Resources P/L	100%
EPM 25505	Queensland	Border	Ripple Resources P/L	100%
EPM 26018	Queensland	Kola South	Ripple Resources P/L	100%
EPM 26020	Queensland	Inca Creek	Ripple Resources P/L	100%
EPM 26022	Queensland	Yelvertoft	Ripple Resources P/L	100%
EPM 25802	Queensland	Walford East	Ripple Resources P/L	100%
EL 30810	Northern Territory	Sweetums	Ripple Resources P/L	100%
EL 31012	Northern Territory	Carpentaria	Ripple Resources P/L	100%

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

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