ARMOUR ENERGY LIMITED

and controlled entities

ABN 60 141 198 414

Half-year Financial Report

for the six months ended 31 December 2017

Contents

Directors' report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Armour Energy Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

The following persons held office as Directors of Armour Energy Limited during the half-year and up to the date of this report:

Nicholas Mather
Matthew Beach
Stephen Bizzell
Roland Sleeman
William (Bill) Stubbs
Eytan Uliel (appointed 20 November 2017)

Principal activities

The Group is focused on the discovery and production of world class oil and gas assets. The Group is currently focused on developing its valuable East Coast Australia oil and gas assets, strategically located on the Roma Shelf in the Surat Basin, Queensland.

The Group's 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.

Review of operations

During the half-year, the Group's primary focus has been on completion of the restart of the Kincora Gas Plant (KGP), which was completed at the end of December 2017, and commencing production of gas, condensate, and LPG. The Kincora project will provide the Group with cash flow to assist funding the overall growth strategy, which includes becoming the pre-eminent oil and gas resource owner and producer in the Roma region.

HIGHLIGHTS

The loss after income tax for the half-year ended 31 December 2017 was $8,352,878 (2016: $4,235,454).

- Surat Basin
  - Kincora Project - Sales Revenue of $3.1 million for the half-year
  - Kincora Project: Restart program completed
  - Kincora Exploration - Further petroleum acreage awarded
- Uganda:
  - Uganda Project - Exploration licence granted, funding arrangement with DGR Global
- Corporate:
  - Entitlement Offer completed raising $4.25 million, as well as a Placement for a further $1 million
  - Further convertible note funding received, taking the total aggregate value of convertible notes subscribed to $33.5 million. A further $5 million was received after the Balance Sheet date.

Directors' report (continued)

Review of operations (continued)

SURAT BASIN

Kincora Project - Sales Revenue of $3.1 million for the half-year

In September 2017, the Group achieved a major milestone when it commenced commercial sales of gas from the Newstead storage facility, processed through the dry gas circuit of the KGP, and oil revenue was derived from the Emu Apple facility. Sales revenue for the half-year was $3.1 million.

Kincora Project: Restart program completed

Just prior to the end of December 2017, the Group successfully restarted the LPG circuit of the KGP and now has a fully operational plant. This was a major milestone for the Group as it continues to de-risk the Kincora project and builds value for stakeholders.

The restart of the LPG circuit included the restart of existing raw gas wells. To date only sixteen existing production wells have been brought back on line, and the Group is gradually bringing all available existing raw gas wells back into production. When all wells are back on line, the Group will have greater flexibility regarding how it chooses to operate the Newstead Gas Storage Facility. Prior to the successful recommissioning of the KGP at the end of December, Newstead was the only gas that could be processed for sale. Now with the LPG circuit on line, production from the existing raw gas wells plus Newstead stored gas is expected to provide the Group with sufficient production capacity to sell gas above its contractual commitments under the gas sales agreement with APLNG.

The Group intends to gain a deeper understanding of the operational performance capabilities of the KGP and the overall Kincora infrastructure (i.e. KPG, Newstead Storage Facility, and gas gathering systems) during the second half of FY2018. During this period gas production is expected to vary as we look to optimise performance across for the existing infrastructure.

The Group has now moved into Phase 2 of its growth strategy and has commenced a number of technical studies on the KGP to provide a clear path to increase production and to obtain a deeper understanding of potential de-bottlenecking opportunities that might be progressed.

The subsurface team has progressed drilling plans for 2018 and the Group is progressing the necessary planning and approvals necessary, and are currently targeting to commence drilling the first new production well in Q4 FY2018.

Kincora Exploration - Awarded Further Petroleum Acreage

The Group has been successful in being awarded petroleum acreage under two Queensland Government competitive tender processes. The tender areas are PLR2016/2017-1-2 (now ATP 2030) and PLR201718-1-2 (awarded 1 March 2018) on the Roma Shelf, in the Surat Basin, comprising a combined 683km2 of highly prospective petroleum ground, and both were awarded for nil consideration. Both tender areas are immediately adjacent to the Group's existing production licences and associated infrastructure, meaning that resources identified in the tender area can be readily connected to the KGP and thus to Queensland's supply constrained domestic market.

ATP 2030 is contiguous with PL71 and the Ungabilla block on ATP754 (refer map per Figure 1). The Ungabilla block on ATP754 is considered very promising with the Ungabilla 1 well having intersected over 5 metres of overpressured gas-condensate saturated net pay across two reservoir intervals along the perimeter of a large structural high. As advised on 3 April 2017, gas produced in this region has historically provided an average LPG yield of approximately 2,065 tonnes/petajoule and an average condensate yield of approximately 9,938 barrels/petajoule.

PLR201718-1-2 is contiguous with the Group's PLs 14, 21, 22 and 227. The Authority to Prospect over the tender area is to be awarded with the condition that gas produced will be for the supply to the Australian domestic market only.

Directors' report (continued)

Review of operations (continued)

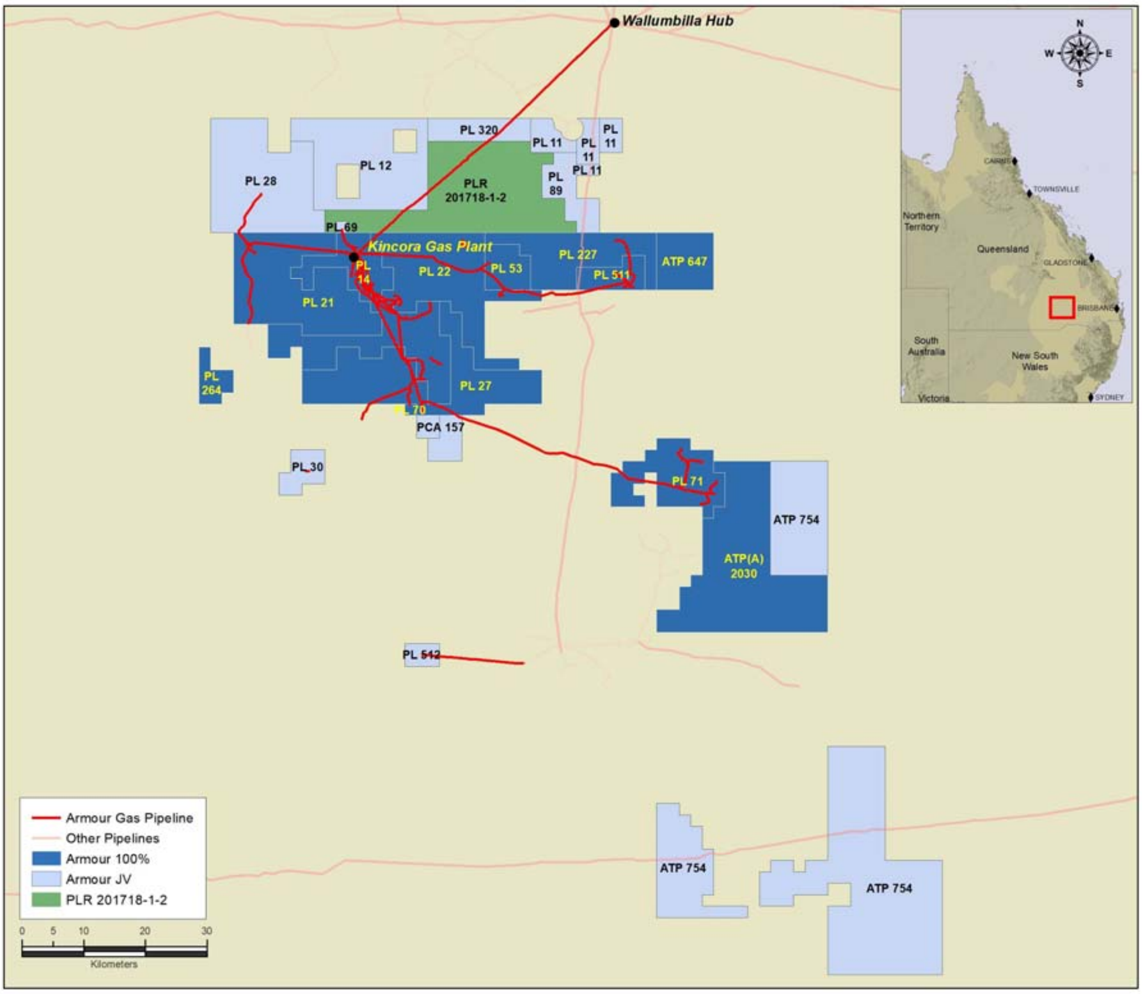

Figure 1: Map showing the Roma Shelf, Surat Basin leases including ATP2030 and PLR201718-1-2

RESERVES

The commercialisation of the Kincora Project has been evaluated in accordance with the Society of Petroleum Engineers - Petroleum Resource Management System (SPE-PMRS) guidelines, and has resulted in independently verified 2P petroleum reserves detailed in table 1 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 1 - Kincora Project estimated aggregated quantities of petroleum reserves

Review of operations (continued)

Table 1 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

The Group is set to become the only significant independent gas producer on the Roma Shelf in Queensland, not constrained by being fully contracted to LNG supply contracts. Strong domestic gas market opportunities are considered likely into the near future in view of tight gas supply for domestic use in Eastern Australia, exacerbated by LNG export demand through the Gladstone LNG plant operators and drilling and development restrictions in NSW and Victoria.

UGANDA

Uganda project - Exploration licence granted, funding arrangement with DGR Global

On 19 September 2017, the Group announced that it had 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.

Based on the Highly Prospective Oil Columns Kanywataba Block internal report dated 13 September 2017, the Group 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. The Group considers the main resource risk to be potential loss of hydrocarbon charge, and on that basis considers prospects 2 and 3 to represent the most prospective targets.

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

Table 2 - estimated unrisked Prospective Oil Resources, Kanywataba Block

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.

Directors' report (continued)

Review of operations (continued)

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 Group has agreed, subject to Government of Uganda consent, to transfer the tenement to a project specific company in which the Group will have a 16.82% interest and DGR Global, a major shareholder in Armour Energy Ltd, shall hold the other 83.18% interest in the transferee entity. 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 the Group for these costs.

CORPORATE ACTIVITIES

<u>Entitlement Offer</u>

In October 2017, the Group closed the Entitlement Offer, successfully raising $4.25 million, before fees and costs. 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.

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 decided to undertake a further placement to raise $1 million before costs on the same terms as the Entitlement Offer at a price of $0.076 per share, which has now been completed.

<u>Convertible Notes</u>

During the half-year, the Group received further convertible note subscriptions of $1.7 million.

Conditions precedent for funds managed by MH Carnegie & Co's subscription for an additional $5 million of convertible notes were satisfied during the half-year. The investment from MH Carnegie was received by the Company on 2nd January 2018 and takes their total convertible note investment to $13.25 million.

With the additional investment of funds managed by MH Carnegie & Co post half-year end, the aggregate value of convertible notes subscribed for is now $38.5 million out of the approved convertible note issue size of $45 million.

Events after the Reporting Date

Convertible notes

On 2 January 2018 an additional $5 million worth of convertible notes was subscribed for by funds managed by MH Carnegie & Co, and takes their total convertible note investment to $13.25 million.

LPG and Condensate production

The Kincora Gas Plant is now producing and shipping condensate and LPG, and production rates across the Kincora project area have provided on average an LPG yield of 2,065 tonnes/PJ of gas, and a condensate yield of 9,938 barrels/PJ of gas. At current oil prices, sales of condensate and LPG based on historical production rates are expected to add approximately 25% to the revenue derived from the Group's gas sales.

Release of DGR Security

During the half-year ended December 2017, the Group fully repaid the DGR Loan Facility. Subsequent to the half-year end, the first ranking security and mortgage over unsecured Surat Basin Assets, and the fixed and floating charge over the assets of Armour Energy Limited was released.

Award of further Roma Shelf petroleum acreage

On 1 March 2018, the Group announced that it has been successful in the recent Queensland Government petroleum acreage release tender, and has been notified by the Queensland Department of Natural Resources and Mines that it is the preferred tenderer for tender area PLR201718-1-2 on the Roma Shelf, in the Surat Basin.

Directors' report (continued)

Events after the Reporting Date (continued)

The tender area comprises 318 square kilometres of petroleum acreage near the Kincora production facilities (refer to figure 1), and is to be awarded by the Queensland Government to the Group for an agreed work program, following a competitive tender process.

Auditor's independence declaration

The Directors received an independence declaration from the auditor of Armour Energy Limited. This is attached on page 7.

Signed in accordance with a resolution of the Board of Directors.

Nicholas Mather
Executive Chairman

Brisbane
13 March 2018

Auditor's 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 review of Armour Energy Limited for the half-year ended 31 December 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Armour Energy Limited and the entities it controlled during the period.

Tim Kendall

T J Kendall

Director

BDO Audit Pty Ltd

Brisbane, 13 March 2018

Consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2017

	Notes	31 December 2017 $	31 December 2016 $
Revenue from sales		3,112,680	161,517
Cost of sales		(2,689,714)	(46,360)
Gross Profit	3	**422,966**	**115,157**
Other income		47,997	30,698
Administration and consulting expenses		(1,200,079)	(752,501)
Depreciation		(147,160)	(25,539)
Employee benefits expenses		(704,439)	(526,133)
Exploration expenditure written off		(4,107)	(388)
Finance costs		(4,211,492)	(1,152,463)
Share based payments		(170,569)	(740,402)
Pre-Production costs		(2,179,680)	(1,443,374)
Other		(206,315)	(378,012)
(Loss) before income tax	3	**(8,352,878)**	**(4,872,957)**
Income tax benefit (expense)		-	637,503
(Loss) for the year		**(8,352,878)**	**(4,235,454)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Change in fair value of financial assets at fair value through Other Comprehensive Income		-	2,125,000
Income tax on items that may be reclassified to profit or loss		-	(637,503)
Other comprehensive income for the half-year, net of tax		**-**	**1,487,497**
Total comprehensive income for the half-year		**(8,352,878)**	**(2,747,957)**

	Notes	Cents/ share	Cents/ share
Earnings per share			
Basic earnings per share	5	(2.3)	(1.3)
Diluted earnings per share	5	(2.3)	(1.3)

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 31 December 2017

	Notes	31 December 2017 $	30 June 2017 $
Current assets			
Cash and cash equivalents	6	4,277,442	7,711,840
Trade and other receivables		1,368,845	395,737
Inventories		1,057,340	961,300
Other current assets		43,424	405,915
Total current assets		**6,747,051**	**9,474,792**
Non-current assets			
Other financial assets	7	10,295,154	9,969,788
Exploration and evaluation	8	48,673,136	48,596,996
Property, plant and equipment		24,021	22,468
Oil and Gas assets	9	29,073,665	23,670,848
Total non-current assets		**88,065,976**	**82,260,100**
Total assets		**94,813,027**	**91,734,892**
Current liabilities			
Trade and other payables		7,234,603	3,476,008
Interest Bearing Liabilities	10	-	2,057,799
Convertible Note coupons	10	1,352,075	829,716
Provisions		97,174	66,569
Other current liabilities		213,824	442,558
Total current liabilities		**8,897,676**	**6,872,650**
Non-current liabilities			
Convertible Notes	11	31,211,726	26,388,489
Provisions	12	6,639,368	6,648,323
Other non-current liabilities	13	1,740,022	2,774,415
Total non-current liabilities		**39,591,116**	**35,811,227**
Total liabilities		**48,488,792**	**42,683,877**
Net assets		**46,324,235**	**49,051,015**
Equity			
Issued capital	14	96,286,584	91,301,423
Reserve		5,829,554	5,188,617
Accumulated losses		(55,791,903)	(47,439,025)
Total equity attributable to owners of Armour Energy Limited		**46,324,235**	**49,051,015**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity for the half-year ended 31 December 2017

	Issued Capital	Accumulated Losses	Fin.Assets Revaluation Reserve	Convertible Note Reserve	Performance Shares Reserve	Performance Rights Reserve	Option Reserve	Total equity
Balance at 1 July 2016	87,435,000	(35,964,333)	(4,297,300)	-	125,000	125,000	3,408,826	50,832,193
Loss for the year	-	(4,235,454)	-	-	-	-	-	(4,235,454)
Other comprehensive income	-	-	1,487,497	-	-	-	-	1,487,497
Total comprehensive income for the period	-	(4,235,454)	1,487,497	-	-	-	-	(2,747,957)
Transactions with owners in their capacity as owners								
Value of conversion rights - convertible notes, net of issue costs	-	-	-	2,321,395	-	-	-	2,321,395
Litigation settlement shares sold	2,970,270	-	-	-	-	-	-	2,970,270
Sale costs of litigation settlement shares	(182,691)	-	-	-	-	-	-	(182,691)
Share based payments	-	-	-	-	-	-	740,402	740,402
Balance at 31 December 2016	**90,222,579**	**(40,199,787)**	**(2,809,803)**	**2,321,395**	**125,000**	**125,000**	**4,149,228**	**53,933,612**
Loss for the year	-	(7,239,238)	-	-	-	-	-	(7,239,238)
Other comprehensive income	-	-	(1,487,497)	-	-	-	-	(1,487,497)
Total comprehensive income for the period	-	(7,239,238)	(1,487,497)	-	-	-	-	(8,726,735)
Transactions with owners in their capacity as owners								
Value of conversion rights - convertible notes, net of issue costs	-	-	-	2,623,300	-	-	-	2,623,300
Shares issued during the period	1,000,002	-	-	-	-	-	-	1,000,002
Litigation settlement shares sold	78,842	-	-	-	-	-	-	78,842
Share based payments	-	-	-	-	-	-	141,994	141,994
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**
Loss for the year	-	(8,352,878)	-	-	-	-	-	(8,352,878)
Total comprehensive income for the year	-	(8,352,878)	-	-	-	-	-	(8,352,878)
Transactions with owners in their capacity as owners								
Value of conversion rights - convertible notes, net of issue costs	-	-	-	470,368	-	-	-	470,368
Shares issued during the year	5,256,155	-	-	-	-	-	-	5,256,155
Share issue costs	(270,994)	-	-	-	-	-	-	(270,994)
Share based payments	-	-	-	-	-	-	170,569	170,569
Balance at 31 December 2017	**96,286,584**	**(55,791,903)**	**(4,297,300)**	**5,415,063**	**125,000**	**125,000**	**4,461,791**	**46,324,235**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows for the half-year ended 31 December 2017

	Notes	31 December 2017 $	31 December 2016 $
Cash flows from operating activities			
Receipts from customers		2,383,336	-
Payments to suppliers and employees		(2,437,320)	(3,705,226)
Payments for production		(2,422,696)	-
Interest received		84,487	29,333
Interest paid		-	(256,552)
Net cash (outflow) from operating activities		**(2,392,193)**	**(3,932,445)**
Cash flows from investing activities			
(Payments for) Reduction in security deposits		(345,168)	90,402
Payments for property, plant and equipment		(13,080)	-
Payments for Oil and Gas assets		(6,677,125)	(1,698,302)
Payments for exploration and evaluation assets		(160,778)	(620,879)
Research and Development funds in relation to oil and gas assets		1,958,526	-
Research and Development funds in relation to exploration assets		26,592	-
Net cash (outflow) from investing activities		**(5,211,033)**	**(2,228,779)**
Cash flows from financing activities			
Proceeds from issues of shares		3,752,307	2,970,269
Proceeds from issue of convertible notes		1,765,000	2,974,754
Proceeds from borrowings	10	-	1,226,328
Transaction costs on the issue of shares and notes		(348,479)	-
Repayment of borrowings		(1,000,000)	-
Net cash inflow from financing activities		**4,168,828**	**7,171,351**
Net (decrease) increase in cash and cash equivalents		(3,434,398)	1,010,127
Cash and cash equivalents at the beginning of the financial year		7,711,840	183,401
Cash and cash equivalents at end of period	**6**	**4,277,442**	**1,193,528**

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

1 Summary of significant accounting policies

Corporate information

The financial report of the Group for the half-year ended 31 December 2017 was authorised for issue in accordance with a resolution of the Directors on 13 March 2018.

Armour Energy Limited is a public company limited by shares incorporated and domiciled in Australia. The Company'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 general purpose financial report for the half-year ended 31 December 2017 has been prepared in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report. Accordingly, this half-year financial report is to be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by the Group during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in this half-year financial report as compared with the most recent annual financial report.

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 half-year ended 31 December 2017, the Group generated a consolidated loss of $8,352,878 and incurred operating cash outflows (net of sales) of $2,392,193. As at 31 December 2017 the Group had cash and cash equivalents of $4,277,442 net current liabilities of $2,150,625 and net assets of $46,324,235.

At the end of September 2017, the Group commenced selling gas from its Newstead storage facility to the market which has contributed towards $3,112,680 of sales revenue in the half-year period. At the end of December 2017, the Group successfully restarted the LPG circuit of the Kincora Gas Plant (KGP) and now has a fully operational plant. With the capability to now process raw gas from the existing wells and produced condensate and LPG, the Group is forecasting to increase revenue over the coming 12 months.

However, during the initial stages of the restart of the KGP, the ability of the Group to continue as a going concern is dependent on 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) Managing its working capital expenditure;

(4) Applying for eligible Research and Development tax refund receipts, and other Government incentives;

(5) Increasing cash flows from Oil and Gas assets; and

(6) Disposing of non-core assets.

Whilst there is growing confidence in the performance of the Kincora Project, at the date of signing these accounts the above conditions continue to give rise to a material uncertainty which may cast significant doubt over the Group’s ability to continue as a going concern.

1 Summary of significant accounting policies (continued)

Going concern (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 2 January 2018, the Group received a further $5 million Convertible Note subscription from funds managed by MH Carnegie & Co.;

(2) A further $6.5 million worth of Convertible Notes are expected to be raised by the end of March 2018;

(3) The cash generating ability of the Kincora Project will continue to increase since the full recommissioning of the KGP, and the Group has moved into Phase 2 of its growth strategy to increase production levels;

(4) The Group will continue to review a number of strategic and funding opportunities.

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.

2 Segment information

The Group has identified its operating segments 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 geographical 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 half-year ended 31 December 2017, management identifies the Group as having two reportable segments, being exploration activities (Exploration & Evaluation), and the production and development of oil, gas, LPG and condensate in the Surat Basin, Queensland (Production & Development), and will report on these segments accordingly.

The chief operating 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.

Inter-segment transactions

An internally determined cost base is set for all intersegment services provided. All such transactions are eliminated on consolidation into the Group's financial statements.

Segment Assets

Segment assets are clearly identifiable based on their nature and physical location.

Segment Liabilities

Liabilities are allocated to segments where there is a direct nexus between the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the whole Group and are not allocated. Segment liabilities include trade and other payables and certain provisions.

Unallocated items

The following items of income, expenses, assets and liabilities are not allocated to operating segments as they are not considered core to the operation of any segment.

- Corporate head office costs and salaries of non-site based staff;
- Proceeds from capital raisings, and associated convertible note debt;

2 Segment information (continued)

	Exploration & Evaluation $	Production & Development $	Total $
2017			
Segment Revenue			
Sales	-	3,112,680	**3,112,680**
Total segment revenue	**-**	**3,112,680**	**3,112,680**
Reconciliation of segment Gross profit			
Cost of sales	-	(2,689,714)	**(2,689,714)**
Total segment gross profit	**-**	**422,966**	**422,966**
Reconciliation of segment result to Group net loss before tax			
Pre-production costs	-	(2,179,680)	**(2,179,680)**
Impairment of exploration assets	(4,107)	-	**(4,107)**
Depreciation of plant and equipment	-	-	**(10,703)**
Amortisation of convertible notes	-	-	**(1,125,040)**
Amortisation of convertible note issue costs	-	-	**(429,830)**
Convertible note coupons	-	-	**(2,601,993)**
Unallocated	-	-	**(2,424,491)**
Net profit/ (loss) before tax from continuing operations	**(4,107)**	**(1,756,714)**	**(8,352,878)**

	Exploration & Evaluation $	Production & Development $	Total $
2017			
Segment Assets & Liabilities			
Segment assets	51,671,071	38,961,025	**90,632,096**
Reconciliation of segment assets to Group assets			
Intersegment eliminations	**-**	**-**	**-**
Unallocated assets	**-**	**-**	**4,180,931**
Total Group assets	**51,671,071**	**38,961,025**	**94,813,027**
Segment liabilities	**-**	14,731,872	**14,731,872**
Reconciliation of segment liabilities to Group liabilities			
Intersegment liabilities	**-**	**-**	**-**
Convertible note liability	**-**	**-**	**31,211,726**
Other unallocated liabilities	**-**	**-**	**2,545,194**
Total Group liabilities	**-**	**14,731,872**	**48,488,792**

No comparatives given as only one segment was reported in 2016 because management identified the Group as having one reportable segment, being the exploration and development of shale oil and gas in Australia. During the half-year, the Group has two reportable segments, being exploration & evaluation and production & development.

3 Profit / (Loss)

	31 December 2017 $	31 December 2016 $
Profit/ (loss) for the half-year includes the following items:		
Sales revenue:		
- Sale of petroleum products (Kincora Project)	3,112,680	161,517
Interest revenue:		
- Term deposits with financial institutions	42,756	22,426
- Australian Taxation Office	-	4
	42,756	22,430
Interest revenue:		
- Fuel tax credits	5,241	8,268
Cost of sales:		
- Processing costs	2,547,559	46,360
- Depreciation on plant assets	142,155	-
	2,689,714	46,360
Pre-production costs:		
- Pre-production costs	2,043,223	1,151,391
- Depreciation on plant assets	136,457	291,983
	2,179,680	1,443,374
Finance costs:		
- Interest expense	1,078	-
- Financing fees	87,944	1,065,184
- Convertible note coupons	2,601,993	
- Convertible note issue costs	429,830	
- Amortisation of convertible notes	1,125,040	
- Establishment costs	-	21,649
- Unwinding of provision for contingent consideration	(34,393)	65,630
Depreciation		
- Office Equipment	2,099	1,132
- Motor Vehicles	120	14,204
- Oil & Gas asset	278,535	291,983
- Plant & Equipment	8,484	8,838
Defined contribution superannuation expense	103,184	64,053

4 Income tax expense

(a) Component of income tax expense (benefit)

	31 December 2017 $	31 December 2016 $
Income tax expense (benefit) is made up of:		
Deferred tax	-	(637,503)
	-	**(637,503)**
Components of tax expense / (benefit) on other comprehensive income comprise:		
Deferred tax	**-**	**(637,503)**

4 Income tax expense (continued)

(b) The prima facie tax on profit/ (loss) before income tax is reconciled to the income tax expense as follows:

	31 December 2017 $	31 December 2016 $
Prima facie tax on profit / (loss) before income tax at 30% (2016: 30%)	(2,505,863)	(1,462,887)
Add tax effect of:		
Share based payments	51,171	222,121
Expenses not deductible for tax purposes	-	-
Foreign exploration costs	20,802	6,461
Fines and penalties	-	10,681
Tax losses not recognised	1,489,483	586,121
Prior year over/(under)	216,530	-
Deferred Tax Asset utilised following R&D cash back	727,877	-
	-	(637,503)
Less tax effect of:		
Income tax expense / (benefit)	-	**(637,503)**

	Opening balance 1 July 2017	Net charged to income	Net charged to other comprehensive income	Net charged to equity	Net charged to goodwill (business combination)	Closing Balance 31 Dec 2017
Deferred tax asset						
Carried forward losses	13,371,668	(769,871)	-	-	-	12,601,797
Accruals/Provisions	36,643	76,998	-	-	-	113,641
Property, Plant & Equipment (Armour)	13,082	45	-	-	-	13,127
Capital raising costs through P&L	257,203	(80,843)	-	-	-	176,360
Capital raising costs in equity	1,188	64,336	-	-	-	65,524
Provision for rehabilitation	1,066,702	-	-	-	-	1,066,702
Available for sale financial assets	781,330	-	-	-	-	781,330
Amortisation of Convertible Notes	147,173	337,512	-	-	-	484,685
Potential benefit at 30%	**15,674,989**	**(371,823)**	**-**	**-**	**-**	**15,303,166**
Deferred tax liability						
Exploration and evaluation assets	(14,014,292)	542,384	-	-	-	(13,471,908)
Oil & Gas assets	(1,660,697)	(170,561)	-	-	-	(1,831,258)
Financial assets at fair value through P&L	-	-	-	-	-	-
Potential benefit at 30%	**(15,674,989)**	**371,823**	**-**	**-**	**-**	**(15,303,166)**
Net deferred tax	-	**-**	**-**	-	-	-
Deferred tax assets not recognised						
Unused tax losses	20,085,041	4,964,950	-	-	-	25,049,991
Provision for rehabilitation	1,040,451	-	-	-	-	1,040,451
Tax benefit at 30%	**6,337,648**	**1,489,485**	**-**	**-**	**-**	**7,827,133**

4 Income tax expense (continued)

	Opening balance 1 July 2016	Net charged to income	Net charged to other comprehensive income	Net charged to equity	Net charged to goodwill (business combination)	Closing Balance 30 June 2017
Deferred tax asset						
Carried forward losses	12,490,005	881,663	-	-	-	13,371,668
Accruals/Provisions	135,753	(99,110)	-	-	-	36,643
Property, Plant & Equipment (Armour)	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	-	-	-	-	1,066,702
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 and 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 P&L	-	-	-	-	-	-
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 rehabilitation	1,040,451	-	-	-	-	1,040,451
Tax benefit at 30%	**4,645,274**	**2,603,757**	**-**	**-**	**-**	**7,249,031**

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 31 December 2017 under COT.

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

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

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

(3) No changes in tax legislation adversely affect the Group in realising the losses.

5 Earnings per share

(a) Earnings

	31 December 2017 $	31 December 2016 $
Earnings used to calculate basic and diluted EPS	**(8,352,878)**	**(4,235,454)**

(b) Weighted average number of shares and options

	Number of Shares 2017	Number of Shares 2016
Weighted average number of ordinary shares outstanding during the year, used in calculating basic earnings per share	361,385,441	322,858,077
Weighted average number of ordinary and potential ordinary shares outstanding during the year, used in calculating diluted earnings per share	**361,385,441**	**322,858,077**

Options and conversion of convertible notes are not considered dilutive due to losses made by the Group. Options and conversion of convertible notes into equity may become dilutive in the future.

6 Cash and cash equivalents

	31 December 2017 $	30 June 2017 $
Current assets		
Cash at bank and in hand	4,225,328	7,705,236
Other cash and cash equivalents	52,114	6,604
	4,277,442	**7,711,840**

7 Financial Assets

	31 December 2017 $	30 June 2017 $
Non-current assets		
Security deposits	1,319,594	1,184,594
Australian listed shares	2,127,000	2,127,000
Financial Assurances	6,848,560	6,658,194
	10,295,154	**9,969,788**

Movements in financial assets at fair value through Other Comprehensive Income		
Opening balance at 1 July	2,127,000	2,127,000
Fair Value adjustments through Other Comprehensive Income	-	
	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.

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.

7 Financial Assets (continued)

The fair values of financial assets approximate their carrying amounts principally due to the fact that they are measured and recognised at fair value. There is no change in fair value hierarchy level since 30 June 2017.

8 Exploration and evaluation assets

	31 December 2017 $	30 June 2017 $
Exploration and evaluation	48,673,136	48,596,996

	31 December 2017 $	30 June 2017 $
Movements in carrying amounts		
Balance at the beginning of the year	55,342,267	55,460,719
Additions	300,670	981,857
Research & Development grants relating to exploration	(26,592)	(67,363)
Exploration expenditure written off	(4,107)	(1,032,946)
Exploration spend fully funded by Joint Venture partner	(193,831)	-
	55,418,407	55,342,267
Provision for impairment	(6,745,271)	(6,745,271)
	48,673,136	**48,596,996**

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.

9 Oil and Gas assets

	31 December 2017 $	30 June 2017 $
Cost	32,723,981	25,084,101
Accumulated Depreciation	(1,234,273)	(955,737)
Accumulated R&D refunds received against O&G assets	(2,416,043)	(457,517)
	29,073,665	**23,670,848**

9 Oil and Gas assets (continued)

	31 December 2017 $	30 June 2017 $
Movements in carrying amounts		
Balance at the beginning of the year	23,670,848	17,147,690
Additions	7,639,878	7,200,671
Prior year development assets capitalised	-	364,326
Depreciation charge	(278,535)	(584,323)
R&D grants relating to Oil and Gas assets	(1,958,526)	(457,516)
	29,073,665	**23,670,848**

10 Current - Interest Bearing Liabilities

	31 December 2017 $	30 June 2017 $
Current Liabilities		
Secured		
DGR Loan Facility	-	2,057,799
Convertible notes	1,352,075	829,716
	1,352,075	**2,887,515**
DGR Loan Facility		
Movements in carrying amounts		
Opening balance at 1 July	2,057,799	12,872,618
Principal	-	408,169
Conversion of loan into convertible notes	-	(9,400,000)
Conversion of loan into ordinary shares	(1,116,026)	-
Capitalised interest	58,227	1,366,555
Repayments	(1,000,000)	(3,189,543)
	-	**2,057,799**
Convertible notes		
Movements in carrying amounts		
Opening balance at 1 July	829,716	-
Coupon interest accrued	2,601,993	1,448,576
Coupons repaid in cash	-	(629)
Coupons capitalised into notes	(2,079,635)	(618,231)
	1,352,074	**829,716**

(a) Security disclosures

DGR Loan Facility

The DGR Loan Facility was 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 Limited and subsidiaries and the assets of those subsidiaries. The loan was fully repaid within the half-year ended 31 December 2017, and subsequent to the end of the half-year period, all securities relating to the DGR Loan Facility were released.

Convertible Notes

The Convertible Notes are secured with a first ranking security over all the assets of Armour Energy Ltd. Refer to the 2017 annual report for the principal terms of the notes.

10 Current - Interest Bearing Liabilities (continued)

(b) Fair value

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2017.

	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
31 December 2017				
Financial assets (liabilities) at fair value through other comprehensive income	2,127,000		(31,211,726)	(29,084,726)
30 June 2017				
Financial assets (liabilities) at fair value through other comprehensive income	2,127,000		(26,388,489)	(24,261,489)

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 $312,117; a decrease in the risk adjusted discount rate of 100bps would increase fair value by $312,117 for the half year.

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.

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

(c) Terms

The principal terms of the convertible notes issued during the half year are the same as those disclosed in the annual report for the year ended 30 June 2017.

11 Non-current - Interest Bearing Liabilities

	31 December 2017 $	30 June 2017 $
Non-Current Liabilities		
Secured		
Convertible Notes	31,211,726	26,388,489
	31,211,726	**26,388,489**
Movement in carrying amounts		
Opening balance at 1 July	26,388,489	-
Face value of convertible notes issued for consideration	1,765,000	21,304,158
Issue costs of convertible notes - liability component	(89,279)	(1,524,576)
Other equity securities - value of conversion rights, net of issue costs	(486,989)	(4,944,695)
Coupons capitalised into convertible notes	2,079,635	618,231
Amortisation of convertible notes	1,125,040	490,578
Amortisation of issue costs	429,830	44,793
Conversion of debt into convertible notes	-	10,400,000
	31,211,726	**26,388,489**

11 Non-current - Interest Bearing Liabilities (continued)

(a) Security disclosures

DGR Loan Facility

The DGR Loan Facility was a 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 Limited and subsidiaries and the assets of those subsidiaries. The loan was fully repaid within the half-year ended 31 December 2017.

Convertible Notes

The Convertible Notes are secured with a first ranking security over all the assets of Armour Energy Ltd. Refer to the 2017 annual report for the principal terms of the notes.

12 Provisions

	2017 $	2017 $
Employee benefits - long service leave	35,646	44,601
Restoration and abandonment	6,603,722	6,603,722
	6,639,368	**6,648,323**

13 Other non-current liabilities

	31 December 2017 $	**30 June 2017 $**
Deferred consideration	**1,740,022**	**2,774,415**
Movements in the carrying amount		
Opening balance at 1 July	2,774,415	2,657,618
Reclassification of consideration to current liability	(1,000,000)	-
Increase in the discounted amount arising due to time and the effect of any changes in the discount rate and/or timing of cash flows	(34,393)	116,797
	1,740,022	**2,774,415**

(a) Deferred consideration

There is a deferred consideration element to the acquisition of Oil and Gas Assets from Origin Energy in 2015. This element consists of three $1 million payments to be made on the 1st, 2nd and 3rd anniversary of first gas from any of the assets acquired under the business combination. First gas was achieved on 28 September 2017, and the first $1 million payment has been classified as a current liability within trade and other payables.

14 Issued capital

(a) Issued and paid up Capital

	31 December 2017 $	30 June 2017 $
Ordinary shares		
405,175,941 (2017: 336,015,972) ordinary shares fully paid	102,395,242	97,139,088
Share issue costs	(7,993,028)	(7,722,035)
Recognition of deferred tax asset relating to share issue costs	1,884,370	1,884,370
	96,286,584	**91,301,423**

(b) Reconciliation of issued and paid up capital

	Number of shares	$
Opening balance at 1 July 2017	336,015,972	91,301,423
Shares issued for cash ($0.076 per share - 20/10/17)	58,159,969	4,420,155
Shares issued for cash ($0.076 per share - 6/11/17)	2,343,092	178,075
Shares issued for cash ($0.076 per share - 7/11/17)	4,328,947	329,000
Shares issued for cash ($0.076 per share - 27/11/17)	1,842,105	140,000
Shares issued for cash ($0.076 per share - 19/12/17)	2,485,856	188,925
Costs relating to the above share issues		(270,994)
Balance at 31 December 2017	**405,175,941**	**96,286,584**

15 Events After Reporting Date

Convertible notes

On 2 January 2018 an additional $5 million of convertible notes were subscribed for by funds managed by MH Carnegie & Co, and takes their total convertible note investment to $13.25 million.

LPG and Condensate production

The Kincora Gas Plant is now producing and shipping condensate and LPG, and production rates across the Kincora project area have provided on average an LPG yield of 2,065 tonnes/PJ of gas, and a condensate yield of 9,938 barrels/PJ of gas. At current oil prices, sales of condensate and LPG based on historical production rates are expected to add approximately 25% to the revenue derived from the Group's gas sales.

Release of DGR security

During the half-year ended December 2017, the Group fully repaid the DGR Loan Facility. Subsequent to the half-year end, the first ranking security and mortgage over unsecured Surat Basin Assets, and the fixed and floating charge over the assets of Armour Energy Limited was released.

Award of further Roma Shelf petroleum acreage

On 1 March 2018, the Group announced that it has been successful in the recent Queensland Government petroleum acreage release tender, and has been notified by the Queensland Department of Natural Resources and Mines that it is the preferred tenderer for tender area PLR201718-1-2 on the Roma Shelf, in the Surat Basin.

The tender area comprises 318 square kilometres of petroleum acreage near the Kincora production facilities (refer to figure 1 in the review of operations), and is to be awarded by the Queensland Government to the Group for an agreed work program, following a competitive tender process.

Directors' declaration

The Directors of the Group declare that:

(1) The attached financial statements and notes are in accordance with the *Corporations Act 2001* including:

(i) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting; and

(ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year on that date.

(2) In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors..

Nicholas Mather
Executive Chairman

Brisbane
13 March 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Armour Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Armour Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 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 half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of matter – Material uncertainty relating 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 conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit Pty Ltd

BDO

Tim Kendall

T J Kendall
Director

Brisbane, 13 March 2018

Competent Persons Statement

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.

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 17 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.

The Group's Bowen-Surat Basin Reserves Report was prepared by SRK Consulting (Australasia) Pty Ltd and based on data at 1 March 2017, and 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 1 of the review of operations, 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 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 the Group 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. The Group 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.

The economic assumptions used to calculate the estimates of petroleum Reserves are commercially sensitive to the 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. The Group has licence to operate and relevant surface access agreements are in place. The Group 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. The Group 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 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**

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 the Group with respect to the anticipated future undertakings. These forward-looking statements reflect various assumptions by or on behalf of the Group. 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 the Group 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. The Group makes no representations as to the accuracy or completeness of any such statement of projections or that any forecasts will be achieved.

Additionally, the Group 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 the Group 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, the Group undertakes no obligation to provide any additional or updated information whether as a result of new information, future events or results or otherwise.