Armour Energy Limited

ABN 60 141 198 414
armourenergy.com.au

Armour Energy Annual Report 2020

armour energy

Annual Report

for the year ended 30 June 2020

ARMOUR ENERGY LIMITED ABN 60 141 198 414

Corporate directory

Directors

Nicholas Mather	Executive Chairman
Stephen Bizzell	Non-Executive Director
Roland Sleeman	Independent Non-Executive Director
Eytan Uliel	Independent Non-Executive Director

Company Secretary
Karl Schlobohm

Stock exchange listing
ASX (ticker code AJQ)

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@armour_energy

Country of incorporation
Australia

Australian Business Number
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Solicitors
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Share registry
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Registered office and principal business address
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111 Eagle Street
Brisbane QLD 4000
Australia

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Corporate Governance Statement

Armour Energy Limited's latest Corporate Governance Statement can be found on our website at https://armourenergy.com.au/corporategovernance

Chairman's report

Dear Shareholders,

Whilst the last 12 months have presented Armour Energy with a range of challenges, I remain confident in the Company's future prospects, particularly in light of the appointment of Brad Lingo as the Company's CEO in June 2020. Brad has had has a long and successful career in the Australian Oil and Gas exploration and production industry, most notably credited as the driving force in the growth of Drillsearch Energy to a market capitalisation in excess of A$700 million prior to its acquisition by Beach Energy in 2016. I look forward to working with Brad to achieve a similar outcome for Armour Energy over the coming years.

In Amour's latest Investor Presentation "Primed for growth and focused on delivery", the Company has outline five priorities which are focused on delivering Armours growth Strategy. By delivering on these priorities, Armour is fully focussed on delivering value for shareholders and will enable the Company to significantly strengthen its balance sheet giving it the ability to demonstrate the value of its high quality assets in each of its core operating areas – the Surat, the Northern Basin and the Cooper Basin.

To assist with funding for future work programs and to help accelerate the repayment of Amour debt position, the Company is actively progressing further asset transactions, specifically farming out the Northern Territory acreage and exploring options for generating significant value from the Newstead Gas Storage Facility as the only independent, operational gas storage facility . Delivering a similar outcome to the joint venture farmout to Santos for the North Queensland and the Northern Territory South Nicholson Basin exploration tenements and securing a significant joint venture partner or other transaction on these assets, will enable the Company to significantly sstrengthen and unencumber the balance sheet allowing maximum capital and business flexibility.

Recent asset transactions with Santos (JV deal on part of the Company's northern Australian acreage – $21 million cash payments received, carried on $65 million work program) and APLNG ($4 million sale of Armour's 10% interest in the Murrungama Block) have provided the Company with additional working capital and paved the way for accelerated debt payments. In August 2020, the Company made accelerated principal amortisation payments for the Senior Secured Amortising Bonds of $5.3 million bringing the total amortisation payments made on these bonds of approximately $10 million since inception in June 2019.

In June 2020 Armour announced a $10 million capital raise via an initial unconditional share placement of $3.36 million, an underwritten Accelerated Non-Renounceable Entitlement Offer raising $4.53 million and an additional conditional placement targeting raising $2.1 million. Due to overwhelming demand from existing and third-party investors, the Board has upsized the conditional placement component to approximately $7 million, subject to necessary approvals, bring the total capital raise to $15 million. The additional capital will allow Armour to accelerate 2020 and 2021 work programs and is a clear indication of support the Company has generated from existing and new institutional shareholders.

Also, the Company agreed to acquire all Oilex's Cooper-Eromanga Basins exploration acreage. The Oilex transaction will give Armour, a significant exposure to the Cooper-Eromanga Basin. The Cooper Basin is one of Australia's most prolific producing oil and gas provinces, producing 1.5 billion barrels of oil equivalent and notably, the historic core of Santos' onshore Australian production base. The Cooper assets comprise a substantial footprint of exploration and production licences on the oil rich Western and Northern Flanks of the Cooper Basin.

Upon completion of the acquisition, Armour will hold and operate the largest net petroleum exploration position in the South Australian Cooper-Eromanga Basins.

The Cooper-Eromanga Basins have historically high exploration success rates, low cost development pathways, and remain under-explored and under-developed. Proven oil fairways transect and lie adjacent to the licence areas subject of the proposed acquisition and the many nearby discoveries and fields provide analogues for future discoveries. I look forward to bringing you results of the Company's work programs in these new areas into the future.

Over the next 12 months, Armour's forward work program includes:

- Increasing its production at Kincora (Surat) through a six well stimulation program.
- Applying for production licences and field development plans approvals for Glyde, Cow Lagoon and Lamon Pass in the Northern Territory, securing a JV partner for its remaining northern Australian acreage.
- Undertaking minor above ground facility work to restart the Newstead Gas Storage Project and develop a plan to substantially increase the Project's storage injection and draw-down rates and expand the overall gas storage capacity.
- Kick-off exploration activity in the newly acquired Cooper-Eromanga Basins acreage with a view of high-grading the current 3D seismic-controlled leads and prospects portfolio into an initial 3 to 5 well drill-ready exploration program by CYE 2021.
- Formulating an appraisal program for the Panning Tight Gas discovery in the newly acquired Cooper Basin acreage and assessment of the overall development potential for this large, undeveloped tight gas discovery.

Kicking off this work program, Armour commenced the 2020 work program on the 10 September 2020, which is focused on increasing production from existing well stock via a multi-well stimulation program. Phase 1 of the program will involve a three-well stimulation campaign will be executed over the next 3 months (Horseshoe 4, Horseshoe 2, and Warroon 1) with all three wells planned to be completed and flowing through Armour's gas gathering system by early December 2020. Phase 2 of the program will involve a further three-well stimulation program accelerated to the first of half of 2021.

In addition to adding new volumes of liquid rich gas, results are expected to support the de-risking of new drilling locations and contribute to the reserves maturation plan. The Company has a deep portfolio of these production enhancement projects in the Surat Basin and with the successful completion of this program is focussed on carrying these activities into successive multi-well stimulation programs through to 2023 aimed at driving sales gas production up to a consistent 20 TJ/day.

Clearly, the impact of the COVID-19 pandemic on domestic Australian oil and gas prices has affected Armour's operational performance this year, with gas prices on the East Coast Gas Market (ECGM) diving during the first half of 2020. The Company initiated a COVID Response Plan in April 2020 which included a range of capex deferrals and cost reduction measures across its field and site operations as well as head office.

However, spot gas prices at Wallumbilla have started rising off recent lows and Armour remain confident that prices will continue to recover. Based on current industry supplied data, the Australian Energy Market Operator (AEMO) – 2020 Gas Statement of Opportunities projects that the Eastern Australian domestic gas market is likely to substantially tighten and is only expected to meet demand until 2023 so long as LNG exports are redirected into the domestic market. Gas supply uncertainty and variability have substantially increased since the 2019 report, especially between 2022 and 2024.

Chairman's report continued

This bodes well for Armour's future and the Company is exceptionally well positioned to capture opportunities created by this uncertainty in both terms of price and sales volumes through a combination of successful production enhancement projects and maximizing the value of the unique position of the Newstead Gas Storage Project.

Again, I welcome Brad Lingo on board as CEO and look forward to working with him to deliver the above priorities. I would like to thank my fellow Board members and the Company's dedicated work force for another year of hard work. I also want to thank the Company's shareholders and external stakeholders for their continued support and patience during this time. Together, we will transform Armour Energy into one of Australia's premier oil and gas exploration and production companies recognised for its keen eye on quality assets and commitment to delivering for shareholders.

Yours sincerely,

Nicholas Mather
Executive Chairman

Operating and financial review
for the year ended 30 June 2020

EXECUTIVE SUMMARY

Armour Energy Limited (the Company) and its controlled entities (Armour) is focused on the exploration and production of gas and associated liquids resources. The Company's prior and current work programs aim to increase liquid rich gas production and revenues while focussing on becoming one of Eastern Australia's most prominent onshore Oil and Gas explorers and producers.

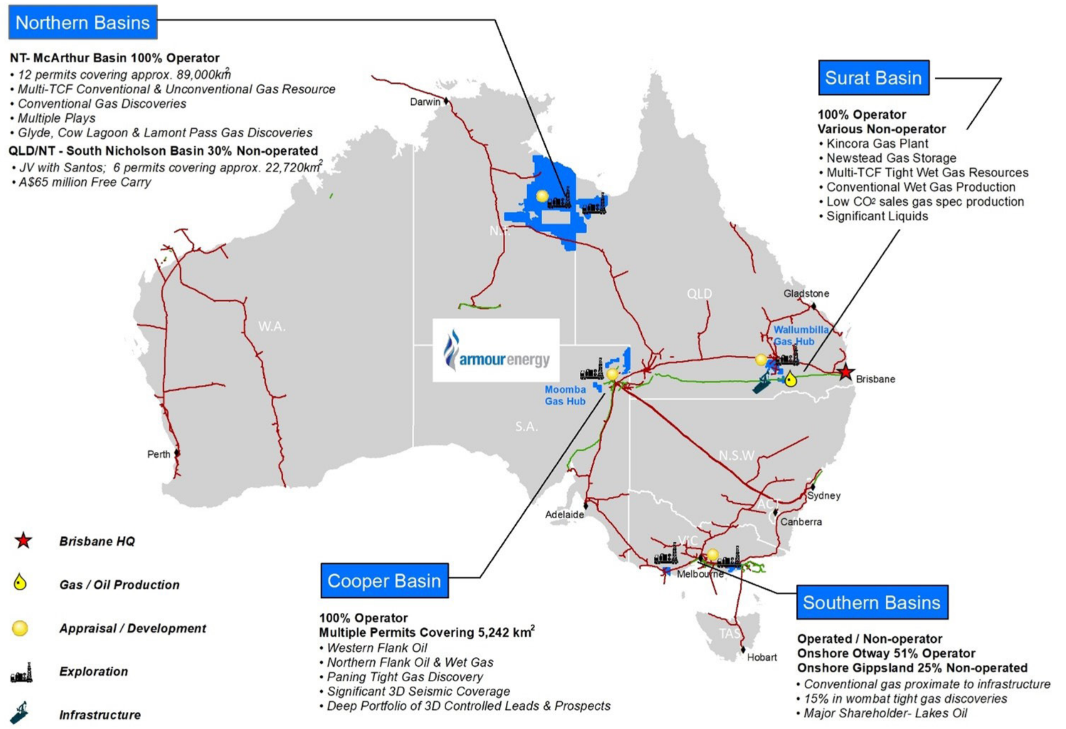


Figure 1 Summary of Armour's assets and locations

KEY ACHIEVEMENTS

SURAT BASIN – KINCORA

- Material increase in the Company's 2P sales gas reserves to 150 PJs – a 22% increase.
- Annual revenue of $21.1m, a decrease of 24.1% from $27.8m in the previous financial year driven primarily by weakening gas prices (0.7%) and sales gas production declines (20.4%).
- Successful hydraulic stimulation of Myall Creek 5A was completed and connected in December 2019 across the Lower Bandana and Upper Tinowon formations. Flowback operations commenced and achieved an initial production wellhead rate (IP30), of 3.2 TJ per day.
- Drilling of two development wells, Myall Creek North #1 and Horseshoe 4.

EXPLORATION – FARMIN AGREEMENT

- During the year, a farmin agreement was executed between Armour and Santos QNT Limited (Santos) for 70% of the South Nicholson Basin tenements.
- As part of this agreement the Armour has received $21 million in cash payments and a 4-year free carry for a $65 million exploration program.

EXPLORATION BLOCK – ATP2046

- Petroleum Lease No. 1084 (PL1084) granted to Armour Energy and Australia Pacific LNG Pty Ltd (APLNG).
- An agreement was completed with APLNG for the sale of Armour's 10% interest in Petroleum Lease 1084 known as the "Murrungama block" in the Surat Basin Queensland for a total of $4 million.

Operating and financial review continued
for the year ended 30 June 2020

KEY ACHIEVEMENTS CONTINUED

COOPER BASIN

- On 15 June 2020, the Company entered into a definitive agreement to acquire all of Oilex Limited's Cooper Basin exploration tenements – PELs 112, 444 and PELA 677 and 27 PRLs in the South Australian Cooper-Eromanga Basins – covering over 5,200 km2 making the Company the operator of the 4th largest exploration acreage holder in the South Australian Cooper Basin after Santos Ltd, Beach Energy and Senex Energy.

UGANDA

- Application for renewal of the block was submitted and approved providing a further 2-year exploration period in which it is planned that an oil well will be drilled subject to the outcome of the current 2D seismic program and funding.

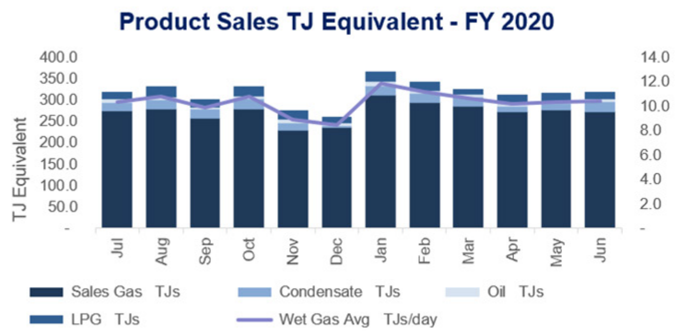
CORPORATE

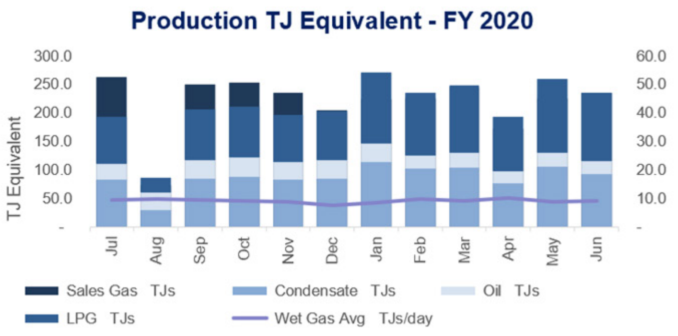
- The Government Gas Acceleration Program (GAP) was completed in October 2019 with Armour receiving a total of $6.1 million in funds.
- In September 2019, raised $4 million via private placement.
- Launched an underwritten equity capital raising for $8 million in June 2020, and due to strong investor demand the conditional placement was increased to $7 million, subject to required approvals, bringing the total raise to $15 million.

The second full year of Operations at Kincora saw 91% (2019: 91%) operational time achieved. Despite being affected by COVID-19 the Kincora wells have been producing steadily and delivered an average of approximately 7.9 TJ/day (2019: 9 TJ/day) of sales gas plus associated liquids, with a peak sales gas production rate of approximately 8 TJ/day (2019: 12 TJ/day) during the year.

Production rates	FY2020	FY2019	Change
Oil (BBL)	11,583.67	14,072.00	(17.7%)
Gas (TJ)	2,601.76	3,267.00	(20.4%)
LPG (T)	4,611.83	4,475.00	3.1%
Condensate (BBL)	38,851.62	42,163.00	(7.9%)

The Kincora Gas Plant has been fully operational for the year with 91% availability (2019: 91%).





In addition to the 7–7.5 TJ/day currently being produced from Armour's Kincora, Armour is also producing on average approximately 138 barrels (2019: 170 barrels) of oil and condensate per day, and approximately 13 tons (2019: 14 tons) per day of Liquid Petroleum Gas (LPG). Oil and condensate are sold ex-Kincora and transported to local Queensland refineries. LPG is also sold at the Kincora Gas Plant and on-sold mostly in Queensland, New South Wales, and South Australia, providing energy for transport, heating, and agricultural enterprises.

In addition to the 7–7.5 TJ/day currently being produced from Armour's Kincora, Armour is also producing on average approximately 138 barrels (2019: 170 barrels) of oil and condensate per day, and approximately 13 tons (2019: 14 tons) per day of Liquid Petroleum Gas (LPG). Oil and condensate are sold ex-Kincora and transported to local Queensland refineries. LPG is also sold at the Kincora Gas Plant and on-sold mostly in Queensland, New South Wales, and South Australia, providing energy for transport, heating, and agricultural enterprises.

Armour, like many other companies has been affected operationally and financially by COVID-19. Global and domestic oil prices have dropped on average by around 36% compared to last year. In keeping with both Governmental restrictions and an overall focus on the health and safety of Armour personnel and contractors, the ability to execute work programs has been challenging move equipment and labour while abiding to government regulations is challenging. Both of these COVID-19 related issues have had a material impact on Armour's 2020 work program.

Measures were taken to directly address the impacts of reduced production resulting from the deferral of work programs in prior and current periods. These deferrals have resulted in the Company falling below its forecast production levels for FY20, however, with the commencement of a 6-well stimulation program which commenced in early September and other planned well production optimisation activities, Armour expects to improve production over the coming year.

The first stage of the 6-well stimulation program – the Horseshoe-4, Horshoe-2 and Warroon-1 well stimulations – are expected to be completed and flowing increased sales gas volumes by mid-December 2020. Collectively this first 3-well program is expected to deliver initial increase in gas production of 3.5 to 4.0 TJ/day (30-day IP rates) with additional production optimisation works delivering another 0.75 to 1.5 TJ/day. As Armour delivers this program and plans its 2021 work program, Armour will continue execute on Phase 3 and Phase 4 of the growth strategy aiming to grow Surat Basin sales gas production to 20 TJ/day over the next 18 to 24 months.

POTENTIAL TRANSACTIONS AND A FOCUS ON DEBT REDUCTION

Additionally, Armour are actively progressing a number of additional asset transactions, which will enable the Company to both fund upcoming near-term production and development work programs, expanded exploration programs and further accelerate amortisation of Armour debt position. Specifically, the Company is focussed on securing a farmin joint venture partner for the Company's Northern Territory McArthur Basin Project area and realizing significant value through the restart and potential upgrade and expansion of the Newstead Gas Storage Project.

The Company believes that through both of these initiatives that significant capital can be realised that can be directed to the reduction of the current outstanding long-term debt. The aim of these transactions is to deliver a significantly strengthened and unencumbered balance sheet providing the Company with maximum capital flexibility to invest in high return. High growth projects within the current project portfolio.

Review of operations and activities continued
for the year ended 30 June 2020

CHIEF EXECUTIVE OFFICER

Mr Brad Lingo joined Armour in June 2020. Mr Lingo has had a distinguished career spanning over 30 years in a diverse range of oil and gas leadership roles, including business development, new ventures, mergers and acquisitions, and corporate finance.

Mr. Lingo has been actively involved in oil and gas exploration, development, and production activities in the Cooper Basin since 1993. He was Managing Director and CEO of Drillsearch Energy Ltd for 6 years building the company from a 200BOPD oil producer to a leading S&P/ASX 200 index Cooper Basin focused oil and gas company. During his time at Drillsearch, the market capitalisation of the company increased from ~$40m to ~$800m.

Mr. Lingo has received recognition as an oil and gas industry leader winning the S&P/ASX200 Energy Best CEO of the Year award in 2014 in the annual SMH/East Coles awards. Prior to taking on the role at Drillsearch, he was Head of Oil and Gas for the Commonwealth Bank of Australia. Mr. Lingo started his career in the Cooper Basin as VP and Head of Business Development for Tenneco Energy and following the acquisition of Tenneco by El Paso Corporation, he was a co-founder of Epic Energy which became one of Australia's leading developer, owner and operator of natural gas infrastructure.

COVID-19 RESPONSE MEASURES
COST REDUCTIONS

Armour is taking steps to reduce corporate costs by a minimum of 35%. This includes all head office staff reducing remuneration by 20% and unfortunately includes a number of redundancies. The Executive Chairman and Non-Executive Directors have also reduced their fees by 20%. Future consideration will be given to the partial payment of Director fees in shares, subject to any necessary shareholder and regulatory approvals.

In addition, Armour is seeking to reduce to the full extent possible all other overheads including contractor hours and rates, administration costs and office rent. These remuneration reductions are anticipated to remain in place for at least a six-month period and will be reviewed and updated as and when required.

Armour is also aiming to reduce operating expenditure at its Kincora Gas Project by approximately 20%, while maintaining its ability to reliably maintain production in a safe and environmentally compliant manner. This will include revised staff rostering and schedules.

STRATEGY

Armour continues to progress its 4-Phase growth strategy.

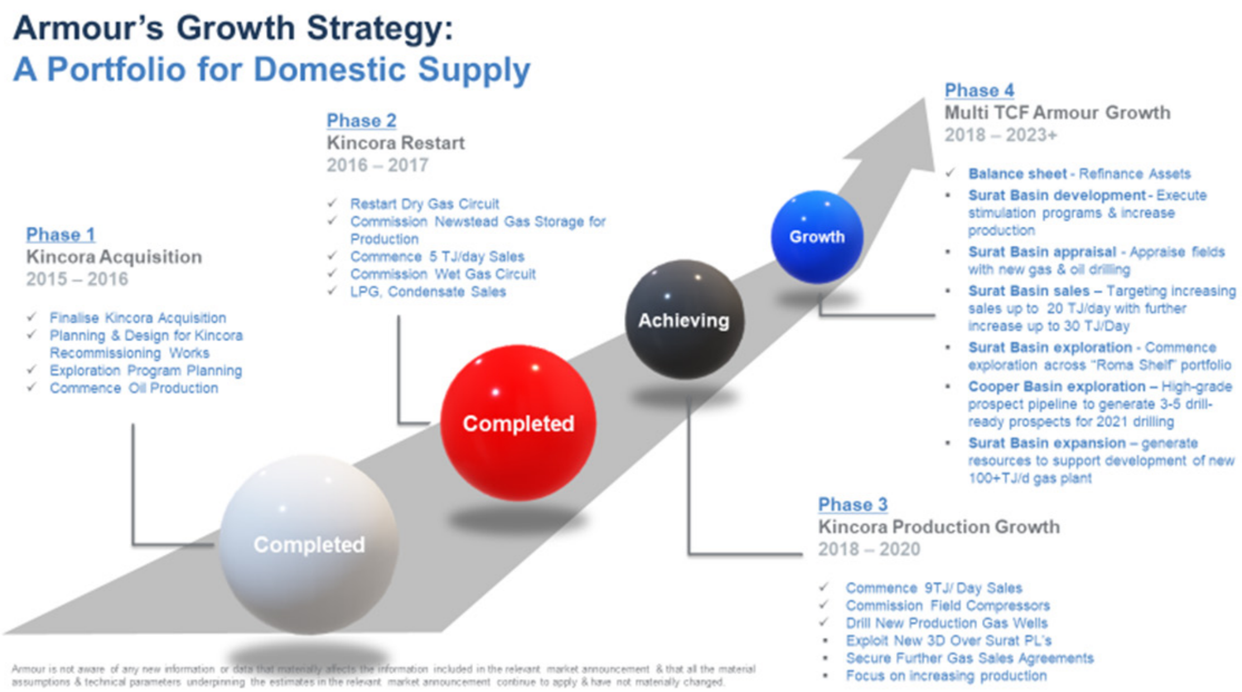


Figure 2 Armour's 4 Phase Growth Strategy

To support Armour's Growth Strategy, the Company has targeted five priorities for the next 12 months to bring Phase 3 to a conclusion and position Armour for Phase 4. These priorities are:

	Action	Deliverables
Priority 1	Deliver sales production increase of 4-6 TJ/day from 2021 Surat development work program on time and within budget	• Generate sufficient free cash flow to cover all operating and corporate costs • Provide reinvestment capital for further development and exploration expenditure
Priority 2	Secure exploration and development farmin joint venture partner for NT McArthur Basin Project	• Recover full historical investment • Reduction of debt/working capital for exploration and development • Secure free carry for development of existing conventional gas discoveries and comprehensive multi-year exploration work program
Priority 3	Extract value through commercialisation of under-utilised assets (e.g. Newstead Gas Storage)	• Release/recover invested capital to reduce debt • Support investment in high return growth projects
Priority 4	Materially reduce debt	• Strengthened, unencumbered balance sheet allowing maximum capital and business flexibility
Priority 5	Consolidate core operating focus areas and projects and rationalise non-core assets (high grading of asset portfolio)	• Focus work programs, people resources and capital on high-return, high growth opportunities with reinvigorated focus on exploration

Review of operations and activities continued
for the year ended 30 June 2020

STRATEGY CONTINUED

The Eastern Australia Gas Market (AEGM) is starting to recover of recent lows brought on by Covid-19 and the correction in the oil price. The Australian Energy Market Operator (AEMO) – 2020 Gas Statement of Opportunities projects that the AEGM is, based on current industry supplied data, tightening and is expected to meet demand until 2023 so long as LNG exports are redirected to the domestic market (see Figure 3).

The uncertainty and variability have increased since the 2019 report, especially between 2022 and 2024. This shortage is reported to be due to a reduction in Victoria's gas reserves, reducing the State's ability to export gas into New South Wales and South Australia.

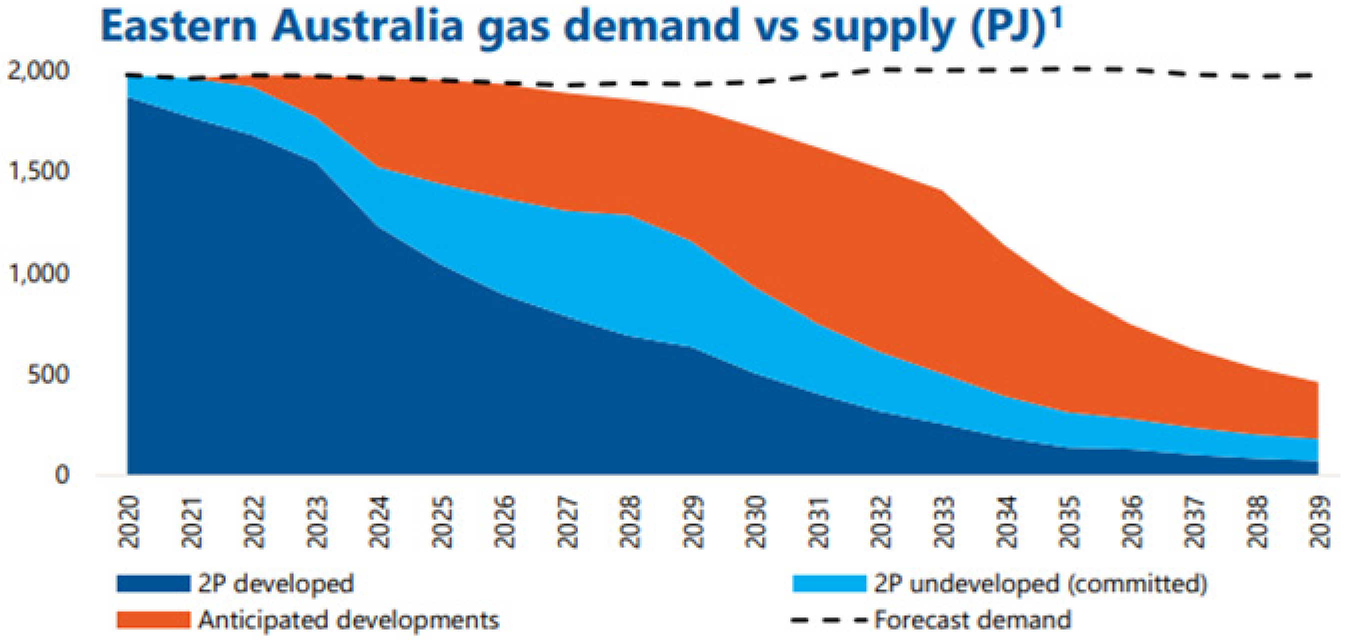


Figure 3 Gas demand vs supply forecast – AEMO 2020 Gas Statement of Opportunity

Beyond the predicted shortage generated from the ongoing increase in demand, and potential shortfall in supply, AEMO has also noted that there is a significant need to continue exploration activities requited to convert contingent resources (2C) and Prospective resources (3C) to reserves. This will require an increase in exploration expenditure and funding. Again, Armours exploration acreage associated with the Roma Shelf, Cooper Basin, North Queensland and Northern Territory will potentially have greater significance to the domestic market.

Armour is in the right location, with the right infrastructure to take advantage of the projected supply shortfall. In seeking to maximise this opportunity, Armour is proposing the following (set out over the page) work program in 2021.

	Development and Production	Exploration
Surat	• Stage 1 – 3 well fracture stimulation program (Dec 20 quarter). • Stage 2 – 3 well fracture stimulation program (June 21 quarter). • Production enhancement projects – multiple well workovers (Sept 2020).	• Commence 3D seismic location planning based on AEM-PTP Airborne Geophysical Survey (completed late 2019) across key Surat Basin exploration assets. • Develop 3-5 drill-ready prospects for potential CYE 2021 drilling program.
Northern Basins	• Applying for Production Licenses and field development plan approvals for Glyde, Cow Lagoon and Lamont Pass conventional gas discoveries. • Commence gas marketing for up to 9TJ/day. • Sales gas production potential as early as 2022.	• McArthur Basin – Conduct AEM-PTP Airborne Geophysical Survey to identify REDOX activity indicating possible hydrocarbon zones. • McArthur Basin – Commence 2D/3D seismic location planning based on AEM-PTP Airborne Geophysical Survey results. • South Nicholson Basin – Santos to prepare for and acquire new 2D seismic and execute targeted drilling activity.
Cooper Basin	• Assessment of appraisal program for the Panning Tight Gas discovery and assessment of development potential.	• Detailed 3D seismic reinterpretation of Northern Fairway PRLs utilizing Total Depth Seisnetics 3D seismic next generation AI evaluation tool. • Conduct AEM-PTP Airborne Geophysical Survey to identify REDOX activity indicating possible hydrocarbon zones. • High-grade leads and prospect inventory to generate drill-ready exploration targets for 2021 drilling program. • Develop 3-5 drill-ready prospects for potential CYE 2021 drilling program.

Funds raised in the September 2020 capital raise will enable the Company to accelerate Stage 2 of the Surat stimulation growth program, Cooper Basin exploration and Newstead Gas storage surface works. Additionally, Armour has a number of asset transactions being actively progressed which will enable the Company to both fund upcoming near-term production and development work programs, expanded exploration programs and further accelerate amortisation of Armour debt position.

OPERATIONS REVIEW
SURAT BASIN ASSETS
Kincora Production Drilling

During the financial year Armour Energy drilled two new production well, Myall Creek North #1 and Horseshoe #4. Myall Creek North #1 was completed in both the Tinowon A and the Tinowon C. The Tinowon C interval was found to be wet and it is believed that water cross flow into the Tinowon A has impeded gas flow from this sand. A further intervention and workover are currently being considered.

Horseshoe #4 was conventionally completed in both Triassic and Permian sands, tied in and sustained an initial production wellhead rate (IP30) of 0.31 TJ/d. An Environmental Authority amendment has been recently obtained, which allows for fracture stimulation activities to now be conducted. Stimulation of Horseshoe #4 is planned as the next step for production enhancement.

Review of operations and activities continued

for the year ended 30 June 2020

OPERATIONS REVIEW CONTINUED

SURAT BASIN ASSETS CONTINUED

Kincora Production Drilling continued

Also, during the December 2019 Quarter, Armour successfully fractured stimulated the Myall Creek #5A Permian sandstones across the lower Bandana and Upper Tinowon formations. The well was brought online and achieved an initial production wellhead rate (IP30) of 3.2 TJ/d. The well continues to exceed expectations and follow-up candidates are being considered.

In addition to new production wells, Armour has continued to restart existing well stocks and optimise the gathering system, with the addition of field compression. Low costs efforts to connect and restart Kungarri 1 and Riverside 1 have resulted in an initial combined wellhead rate (IP30) of 0.37 TJ/d. Further intervention and workover efforts continue to be considered for other existing wells in the gathering network.

Kincora Gas Reserves Upgrade

On 12 June 2020, Armour provided an update on the Company's gas growth and development plans for the Kincora Gas Plant which highlighted:

- 2P gas reserves increased by 22% to 150.3 PJ.
- Material long term potential demonstrated across the wider Kincora Project.
- Reserves independently verified.

The following numbers in Table 1 and Figure 4 have been evaluated in accordance with the Society of Petroleum Engineers – Petroleum Resources Management System (SPE-PRMS) and independently certified and documented in Armour Energy's Hydrocarbon Reserves (as at 31 December 2019) report.

Kincora Gas Project	1P	2P	3P
Gas (Bscf)	59.33	132.2	282.4
Sales Gas (PJ)	67.4	150.3	321.1
LPG (T)	139,000	310,000	663,000
Condensate (Bbl)	670,000	1,493,000	3,191,000

Table 1 Combined Armour Energy Gas Reserves

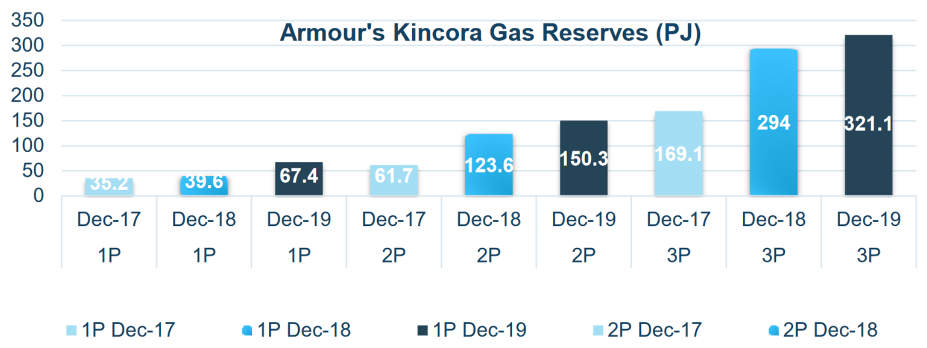


Figure 4 Armour Energy Reserves growth as per 31 December 2019

Notes

- Petroleum reserves are classified according to SPE-PRMS.
- Petroleum reserves are stated on risked net basis with historical production removed
- Petroleum Reserves have no deduction applied for gas used to run the process plant estimated at 7%
- Petroleum Reserves can be sold on behalf of any minority interest holder
- Petroleum Reserves are stated inclusive of previous reported estimates
- BSCF = billion cubic feet, PJ = petajoules, bbls = barrels, gas conversion 1.137 PJ/BCF
- 1P = Total Proved; 2P = Total Proved + Probable; 3P = Total Proved + Probable + Possible.
- LPG Yield 2065 tonnes/petajoules, Condensate Yield 9938 barrels/petajoules

Armour's successful hydraulic stimulation of Myall Creek 5A, the drilling of the Horseshoe 4 gas well and ongoing geological and reservoir studies across the greater Kincora Project have contributed to the upgrade in reserves.

Armour has re-evaluated existing discovery wells and identified significant tight gas from the Myall Creek area and south along the western flank of the Roma Shelf in its operated authority-to-prospect, potential-commercial-areas and petroleum licences. Multiple hydrocarbon saturated tight liquid rich gas reservoirs are present in cased/suspended wells and offer further opportunities to accelerate production. Armour has commenced plans to hydraulically stimulate existing well stock in 2020 and in 2021. These efforts are expected to contribute to gas production and further characterise the fields for future drilling and ultimately contribute to the reserve's maturation strategy.

Kincora Oil Reserves and Resources Initial Booking

Armour completed an extensive review of its acreage for oil exploration, appraisal, and development potential. During the financial year, Armour's technical staff progressed geological and engineering studies across the greater Kincora Project. As a result of these studies, Armour has identified a previously unbooked oil reserves and resources. Refer to Armours' ASX announcement of 18 February 2020 for more information.

The following numbers in Table 2 and Table 3 have been evaluated in accordance with the Society of Petroleum Engineers – Petroleum Resources Management System (SPE-PRMS) guidelines, independently assessed and approved.

Kincora Oil Project – Reserves	1P	2P	3P
Estimated Total Oil (BBL)	245,600	1,220,600	2,639,500

Table 2 Armour Energy Bowen-Surat estimated net aggregate quantities of Oil Reserves

Notes

- Reserve numbers in Table 1 only reflect new Oil Reserves
- Reserves are classified according to SPE-PRMS
- Reserves are stated on a risked net basis with historical production removed
- Reserves can be lifted and sold on behalf of any minority interest holder
- Reserves are stated inclusive of previous reported estimates
- Bbl = barrels, kbbl = thousand barrels, mmbbl = million barrels
- 1P = Total Proved, 2P = Total Proved + Probable, 3P = Total Proved + Probable + Possible

Kincora Oil Project – Contingent Resources	1C	2C	3C
Estimated Total Oil (BBL)	1,231,000	3,696,000	8,019,000

Table 3 Armour Energy Bowen-Surat estimated net aggregate quantities of Oil Contingent Resources

Notes

- Contingent Resources numbers in Table 2 only reflect new Oil Reserves
- Contingent Resources are classified according to SPE-PRMS
- Contingent Resources are stated on a risked net basis with historical production removed, where applicable
- Contingent Resources can be lifted and sold on behalf of any minority interest holder
- Contingent Resources are stated inclusive of previous reported estimates
- The aggregate 1C may be very conservative and the 3C very optimistic because of arithmetic summation
- Bbl = barrels, kbbl = thousand barrels, mmbbl = million barrels

Review of operations and activities continued
for the year ended 30 June 2020

OPERATIONS REVIEW CONTINUED

SURAT BASIN ASSETS CONTINUED

Murrungama Gas Project, Petroleum Lease PL1084 (Formerly Authority to Prospect No. 2046 (ATP2046)) – Armour 10%

PL1084, previously known as ATP 2046, was part of the first national tender where gas had been designated to be supplied exclusively to Australian domestic manufacturers, an initiative of the Queensland Government. The Queensland Department of Natural Resources, Mines and Energy (DNRME) granted Petroleum Lease No.1084 (PL1084) over the former Authority to Prospect – ATP2046 at the beginning of the 2020 calendar year.

A Joint Venture between Armour and APLNG was formed for the development of this project. PL 1084 is an 18km2 coal seam exploration tenure located 22km south-west of Chinchilla and adjoins APLNG's Talinga Project, through which produced gas and water will be processed. The area is surrounded by currently producing CSG fields and is anticipated to likely have similar sweet-spot reservoir properties and production as the Talinga Gas Field. PL 1084 was granted with the specific condition that the gas produced from PL1084 is to be sold exclusively, for local manufacturing.

In the 2020 financial year, Armour entered into an agreement with Australia Pacific LNG Pty Ltd (APLNG) to sell Armour's 10% interest in Petroleum Lease 1084 for a total of $4 million.

NORTHERN BASINS

South Nicholson Basin Farmin Agreement

ATP 1087 is Armour's 100% owned highly prospective shale gas play in the Isa Super Basin, well understood rock properties of up to 11% total organic content, and stacked play opportunities. Armour has drilled 6 wells to date in ATP1087, including the Egilabria-2 well, which was an Australian first, achieving flows from a hydraulically stimulated lateral well in shale. Armour has acquired extensive seismic and other geological data during its tenure and has drill ready targets to achieve large scale production in the future.

In December 2019, a farmin agreement was executed between Armour and Santos QNT Limited (Santos) for Armour's South Nicholson Basin tenements, see Figure 5.

Key points below:

- An initial cash payment of $A15 million, for the transfer of a 70% interest and operatorship of ATP1087 to Santos. This was received in December 2019.
- Under the farmin agreement, Santos has the right to earn a 70% interest in Armour's North Queensland tenements, being ATP1087 (granted), and ATP1107, ATP1192 and ATP1193 (applications), and the Northern Territory tenements EP172 and EP177, both of which are also in the application phase;
- Subsequent to year-end, the Company entered into an agreement with Santos to amend the South Nicholson Basin farmin agreement, resulting in an immediate cash payment of $6 million, received in August 2020, as an acceleration of future contingent permit transfer payments.

Subject to the satisfaction or waiver of certain conditions, Santos will free carry 100% of Armour's share of expenditure for the various work programs for all of the farmin permits up to a Total Capped Amount of A$64,900,000 (inclusive of the A$12.5 million work program associated with ATP1087). However, Santos may exercise its withdrawal rights which will reduce the total capped amount.

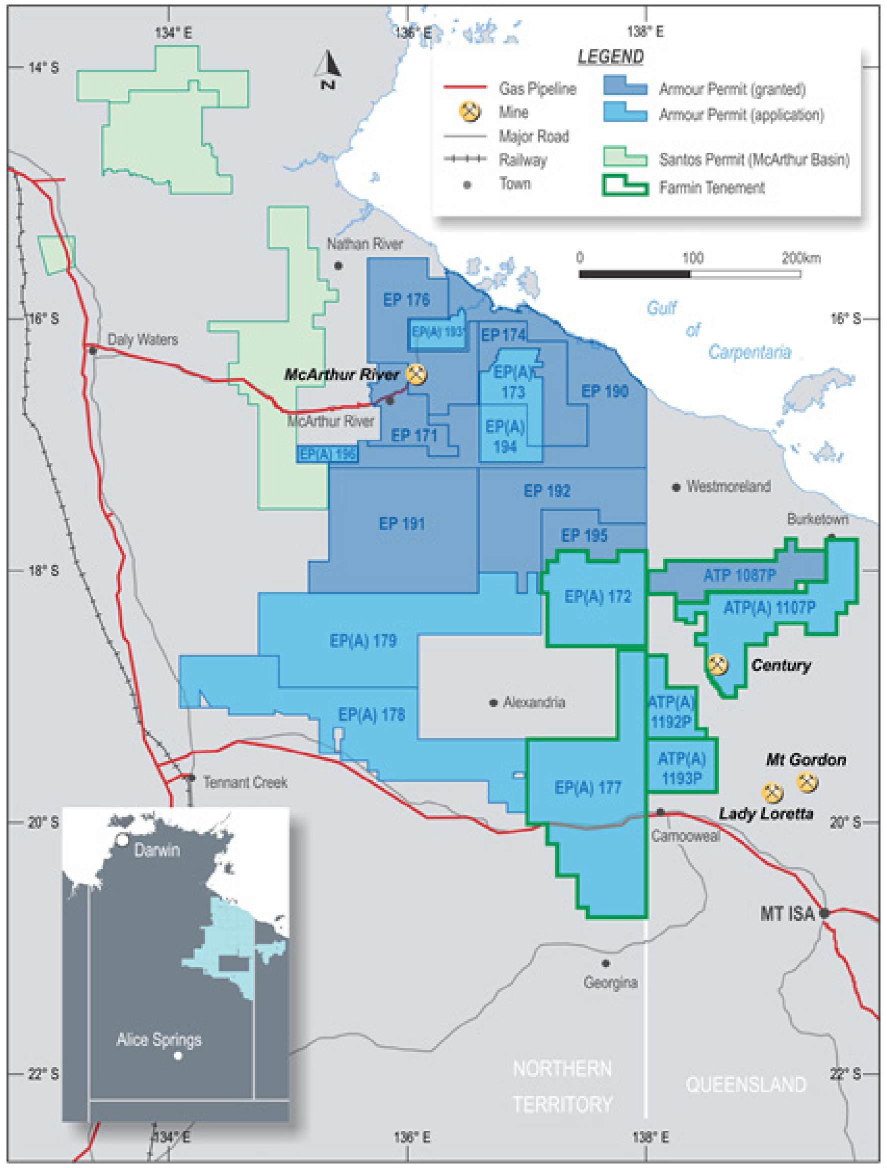


Figure 5 Map showing the Farmin permits within the green border

The remainder of the Company's Northern Territory exploration portfolio is not subject to, or affected by, this farmin agreement.

Northern Territory

As a result of the Northern Territory Government inquiry and moratorium, Armour has sought suspensions, extensions, and variations to the work programs of its granted tenements in the Territory. A number of the approvals for these suspensions, extensions and variations have been received in the financial year. Armour has developed revised work programs for its tenements in the Northern Territory and is working with the Northern Territory Government and the Northern Land Council to establish ongoing exploration and development activities. Armour intends to resume exploration activities and re-establish its social license in the areas as part of the forward work program.

Review of operations and activities continued
for the year ended 30 June 2020

OPERATIONS REVIEW CONTINUED

NORTHERN BASINS CONTINUED

Northern Territory continued

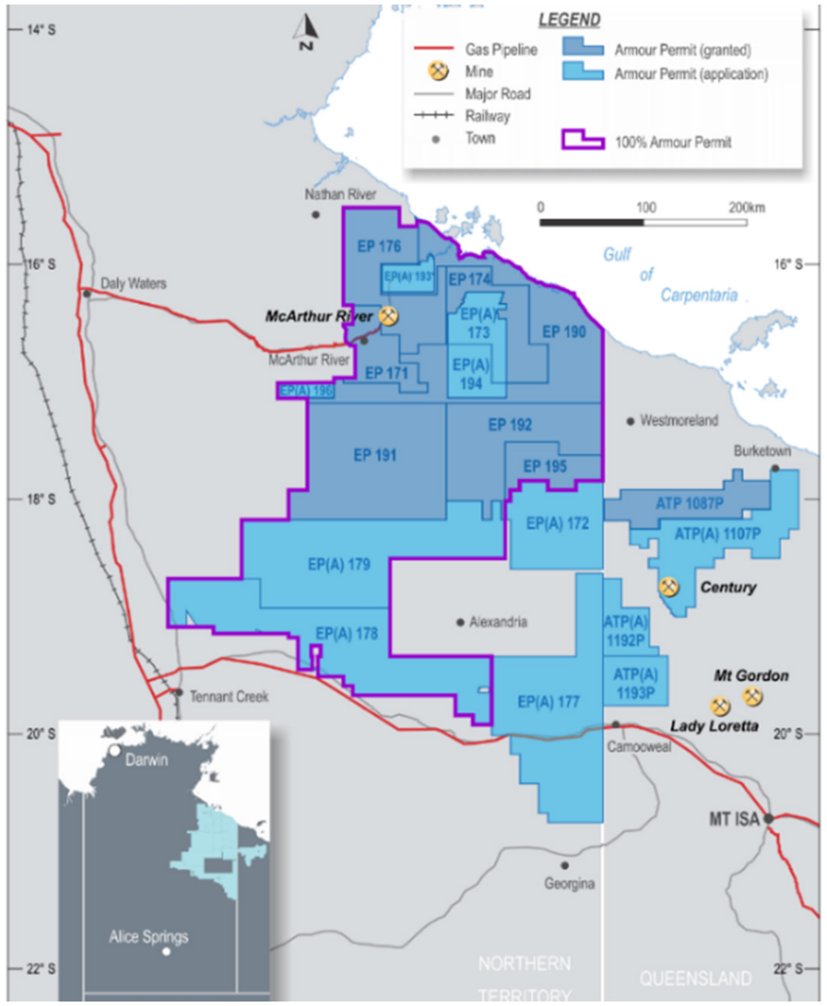


Figure 6 Northern Territory acreage outlined in purple.

Armour's McArthur Basin project area represents the largest and most important part of the Northern, Central and Southern McArthur Basin where the thickest and most oil and gas prone sections of the McArthur and Tawallah source rocks are present.

The Company is progressing three (3) retention licence applications over portions of granted licences EP 171, 176 and 190 (see Figure 6). Reported conventional discoveries to the Minister of flowing hydrocarbons from the Cow Lagoon-1, Lamont Pass-3 and Glyde-1 wells allow parts the licences to be progressed to commercial petroleum licences. Retention licences are an intermediate step to commerciality, allowing for further appraisal works, marketing arrangements, pipeline feasibility studies, environmental studies, land access and Native Title approvals. Once completed, a final investment decision to progress to a petroleum license can be made by the Company. The retention licences each provide security over 12 blocks that are not subject to legislative reductions and will cover broad areas where conventional and unconventional hydrocarbon prospects and discoveries have been through capital work programs.

As noted previously, Armour is marketing other farmin opportunities covering its McArthur and Glyde Basin tenements as per Figure 7, where the purple outline highlights Armour Energy's 100% Tenure.

COOPER EROMANGA ASSETS

Acquisition of Cooper Eromanga Basin Assets

The Company announced on 15 June 2020 that the share sale agreement with Oilex Ltd ("Oilex") for the acquisition of all the issued capital in CoEra Ltd had been executed by the parties. CoEra's assets comprise a substantial footprint of exploration and production licences on the oil rich Western and Northern Flanks of the Cooper Basin, refer Figure 7.

The basin historically has a high exploration success rate, low cost development pathways, and remains under-explored and under-developed. Proven oil fairways transect and lie adjacent to the licence areas subject of the proposed acquisition and the many nearby discoveries and fields provide analogues for future discoveries.

The acquisition consideration will include the issue to Oilex (or its nominees) of a minimum of 24.5m shares and a maximum of 34.5m shares in Armour, subject to the VWAP of the Armour share price for a period of 90 days from the execution of the Term Sheet. The variance is designed to deliver a closing consideration of $906,500 in Armour shares to Oilex, subject to the aforementioned maximum and minimum parameters.

Completion of the sale agreement is subject to a number of conditions. The conditions include that the issue of the shares to Oilex will be subject to any necessary Armour shareholder or regulatory approvals, and the shares issued will also be subject to a 12-month voluntary escrow.

On 20 July 2020, Armour announced that Cordillo Energy Pty Ltd ("Cordillo") had been successful in bidding for Block CO2019-E (PELA 677) ("Block C") in the northern flank of the Cooper Basin in South Australia (see map below). Gazettal Block C forms one of five hydrocarbon exploration licence blocks released for competitive bidding by the South Australian Department of Energy and Mining ("DEM") in 2019.

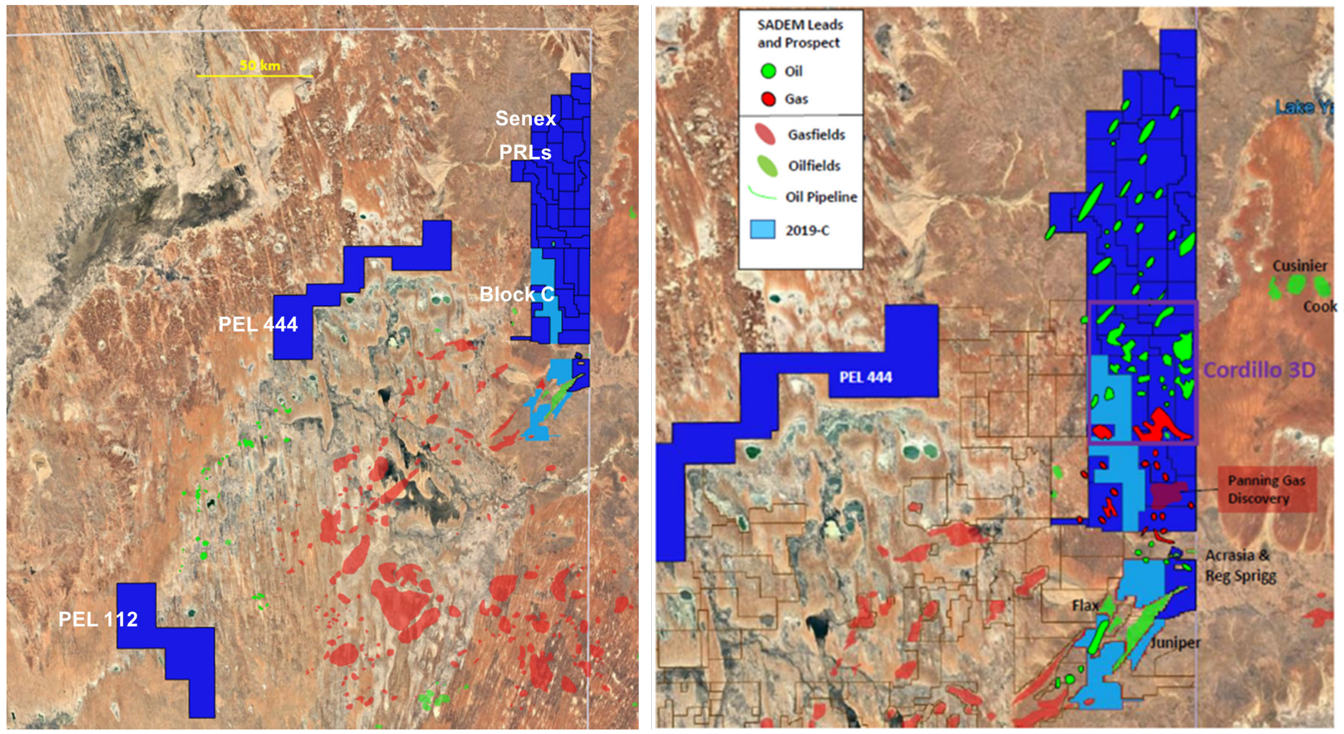


Figure 7 Location map of the Cooper Eromanga assets

Review of operations and activities continued

for the year ended 30 June 2020

OPERATIONS REVIEW CONTINUED

UGANDA OIL PROJECT

The Ugandan Oil Project is located at the southern end of Lake Albert within the Albertine Graben which has recorded discoveries of 6.5 billion barrels of oil. The Company was awarded the Kanywataba exploration licence in September 2017 with DGR Global, a major shareholder in Armour, holding a beneficial interest of 83.18% and the Company 16.82%. The exploration licence was renewed until 13 September 2021, subject to various conditions. This included the completion of the 2D seismic data survey.

The Company has identified multiple developed (untested) on-trend structural traps (3-way and 4-way dip closures) and multiple untested stratigraphic traps. The Kingfisher oil discovery (40km north east of Kanywataba) has produced from commingled oil reservoirs 12,000 barrels per day from a single well with the field expected to come online at 40,000 barrels per day once in production.

Local oil seeps confirmed local working petroleum systems. The Company's internal assessment of the Kanywataba block is a Resource Best Estimate Risked 57-193 mmbls recoverable which compares to the Unrisked Prospective Oil Resource Estimate (mmbls) of 145-217mmbls (Internal Armour Estimate; refer ASX release of 19 September 2017 for full details).

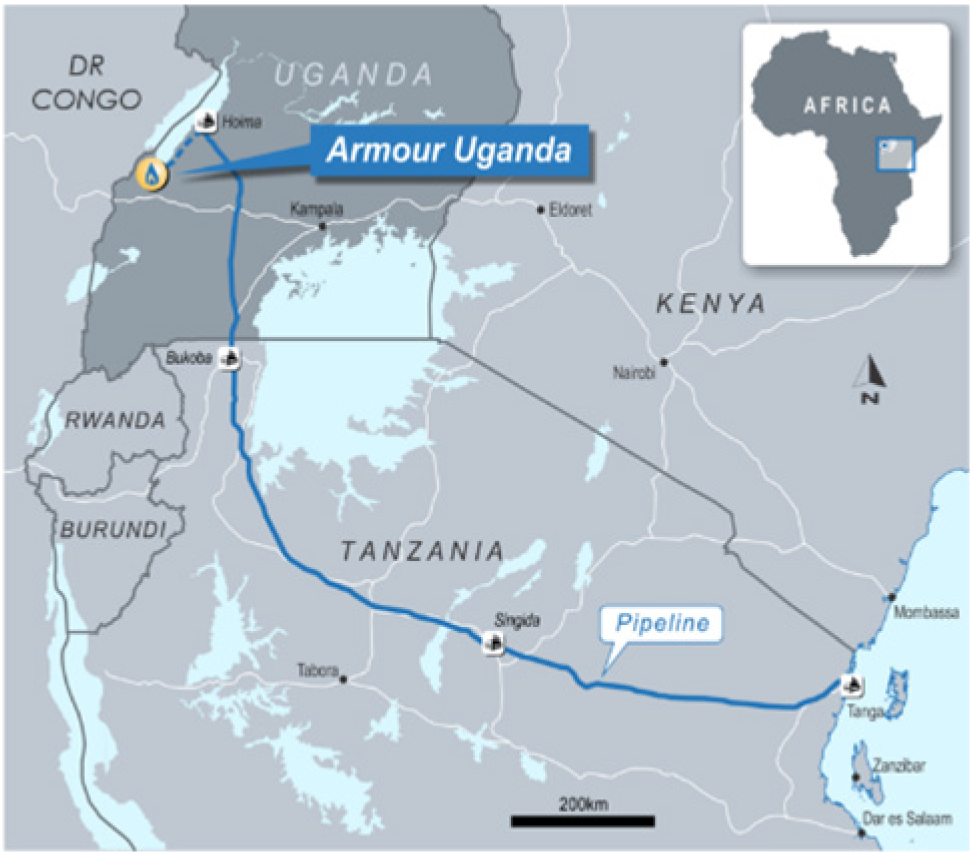


Figure 8 Map Source – DGR Global Website – https://www.dgrglobal.com.au/dgr-uganda

On 9 April 2020, the Company wrote to the Minister of Energy and Mineral Development (Minister) of the Ugandan Government, advising that as a result of the COVID-19 pandemic, it was unable and is being prevented from undertaking work on the 2D seismic program, based on a Force Majeure event occurring.

The Company stated that the travel restrictions put in place by both the Ugandan and Australian Governments prevented key personnel from travelling to the site and the disruption to numerous businesses and supply chains meant that the Company is unable and is being prevented from undertaking work on the 2D seismic program. The effect of this notice to the Minister means that the period during which the event of Force Majeure is operative, will be added to the end of the second exploration period.

CORPORATE ACTIVITIES

Capital Raising

On 23 September 2019, the Company announced that it had successfully closed a private placement raising gross proceeds of $4 million via an allocation of 80 million shares at a price of 5 cents each. Investors received one (1) unlisted option exercisable at 8 cents (through to 30 September 2023) for every two (2) shares subscribed for in the placement.

On 15 June 2020, the Company announced a $10 million capital raising program, which consisted of:

- an initial placement which raised ~$3.36 million.
- an underwritten accelerated non-renounceable, pro rata entitlement offer expected to raise ~$4.53 million.
- an additional conditional placement to raise up to $2.1 million.

Due to significant demand from third-party investors in relation to the Company's fund raising, on the 18 September 2020 the Armour Board announced that it had upsized the conditional placement component to approximately $7 million, subject to the receipt of any necessary further shareholder approvals. Under the offer, for every two (2) new shares issued under the entitlement offer and / or placement, the holder will also receive one (1) attaching listed option exercisable at $0.05 and expiring 29 February 2024.

Corporate Bond Finance Facility

In 2019 Armour raised $55 million via the issue of secured and amortising notes (the New Notes). The offering for the New Notes was managed by FIIG Securities Limited (FIIG).

On 26 March 2020, Armour announced that noteholders of the Company's $55 million Secured Amortising Notes (Notes) had approved, by the requisite majority, the special resolution of Noteholders (the Special Resolution) to amend the Conditions of the Notes as per Armour's proposal.

The approved amendments included the following:

- New Note principal amortisation schedule including 4 quarterly payments in the calendar year 2020 totalling approximately $6.0 million.
- Further unscheduled amortisation payment arrangements to cover certain future asset disposals or further farm-in proceeds received from the Santos Farm-In Agreement.
- Amendments to Financial Undertakings, including the Debt Service Cover Ratio, the Leverage Ratio, and the Gearing Ratio.
- Amendments to extend the Debt Lock Up Date to 31 December 2020.
- The establishment of an EBITDA (non-IFRS measure) performance benchmark for the 2020 calendar year.
- Amendments to certain Conditions (Financial Accommodation and Disposals) in connection with the Ugandan Oil Project.
- Allow for the grant of certain Security interests and the provision of Financial Accommodation in relation to Joint Ventures; and
- Amendments to permit voluntary early redemption of the Notes.

Review of operations and activities continued
for the year ended 30 June 2020

OPERATIONS REVIEW CONTINUED

CORPORATE ACTIVITIES CONTINUED

Corporate Bond Finance Facility continued

As a result of the asset transactions with APLNG and Santos, which generated $10 million in working capital, Armour made a $5.3 million early principal amortisation payment on the Secured Amortising Notes during August 2020.

FINANCIAL REVIEW

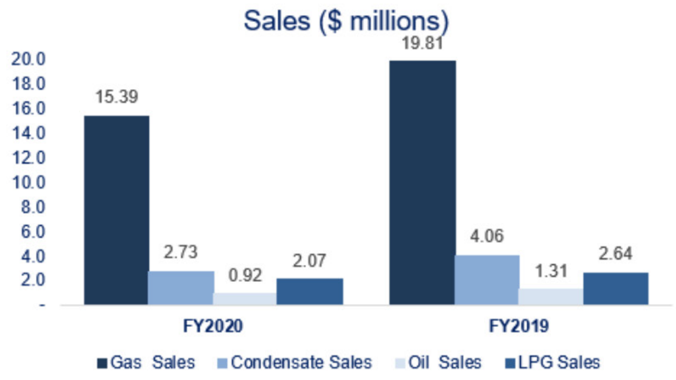
FINANCIAL PERFORMANCE

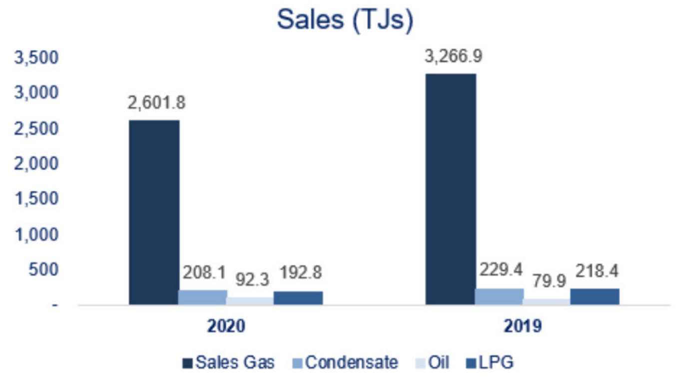
Revenue

Revenue
$21.1 million
2019: $27.8 million

Underlying EBITDA
(Non-IFRS measure)
$7.3 million

Operating Loss
$9.6 million
2019: $11.6 million





Sales Revenue ($ millions)	FY2020	FY2019	Change
Gas Sales	15.4	19.8	(22.3%)
Condensate Sales	2.7	4.1	(32.7%)
Oil Sales	0.9	1.3	(29.9%)
LPG Sales	2.1	2.6	(21.8%)
Total Sales	21.1	27.8	(24.1%)

Realised $/unit	FY2020	FY2019	Change
Gas Price (GJ)	6.10	6.06	0.7%
Condensate Price (BBL)	0.46	0.61	(24.8%)
Oil Price (BBL)	0.50	0.61	(18.0%)
LPG Price (T)	526.94	601.34	(12.4%)

Figure 9 Sales revenue and average realised prices per unit per revenue stream

The second full year of operations at the Kincora Plant saw an overall 24.1% reduction (2019: increase of 88%) in revenues from the sales of Gas, LPG, and condensate. This was a result of several factors including reduced average realised pricing across most products, attributable to the COVID-19 Pandemic, except for gas prices which had a slight increase. Unfortunately, the slight increase in the average gas price did not fully offset the reduced volumes of sales.

Armour generated sales of $21.1 million during the year ended 30 June 2020, which represents a decrease of $6.7 million from the prior year (see Figure 9). Having reduced sales and a full years cost of running the operation, Armour realised a gross profit from operations of $1.6 million (2019: $8.8 million). This was largely offset by the financing costs and general and administrative expenses. As the current year's finance cost was significantly less than the 2019 financial year, the total loss after income tax for Armour was lower than the previous year at $9.6 million (2019: $11.6 million loss).

Financing costs of $7.2 million (2019: $13.6 million) mainly representing interest expense and amortisation expenses relating the loan facilities taken out in the previous year.

Armour has taken steps to reduce corporate costs as previously announced by a minimum of 35%. This included head office staff reducing remuneration by 20% and planned redundancies. The Executive Chairman and Non-Executive Directors have also reduced their fees by 20%. In addition, Armour is seeking to reduce to the full extent possible all other overheads including contractor hours and rates and administration costs.

Armour is also aiming to reduce operating expenditure at its Kincora Gas Project by approximately 20%, while maintaining its ability to reliably maintain production in a safe and environmentally compliant manner. This will include revised staff rostering and schedules but will unfortunately also include some redundancies.

Assets

Cash
$3.2 million
2019: $9.2 million

Exploration Assets
$35.2 million
2019: $49.3 million

Oil and Gas Assets
$58.3 million
2019: $42.3 million

Total assets reduced by $4.9 million from $116.9 million to $112.0 million, and includes:

- Cash and Cash Equivalents of $3.2 million.
- Other Current Assets, including Receivables, Inventory and Assets Held for Sale of $5.6 million.
- Financial assets comprising cash-backed security deposits and bank guarantees of $9.2 million.
- Exploration assets of $35.2 million, which primarily consists of Armour's Northern Territory and North Queensland assets and offset with the $15 million received from Santos for the 70% interest and operatorship of ATP1087.
- Oil and Gas assets of $58.3 million which comprise all the land, licences, and physical assets within the Kincora Project.
- Intangibles of $0.2m related to the capitalisation of the development of software.

Liabilities

Corporate Bond and Loan Facility
$54.8 million
2019: $57.4 million

Provisions
$7.7 million
2019: $8.6 million

Total liabilities decreased by $2.2 million from $72.1 million to $69.9 million, and includes:

- Trade payables and other miscellaneous of $7.3 million.
- Corporate Bond facility, Tribeca Loan facility and lease liabilities of $55.1 million.
- Rehabilitation provision of $6.7 million and the present value of the deferred consideration payable to Origin Energy of $1.0 million.

All covenants in place for the Corporate Bond and Tribeca Loan Facilities were passed during the year ended 30 June 2020.The final amount of $1.0 million payable to Origin energy is in relation to the purchase of the Kincora Project. Unscheduled amortisation payments of $5.3 million was made to FIIG in August 2020, reducing the Corporate Bond Facility ahead of planned. This was a result of the amendment to the Santos farmin agreement and the sale of Armour's 10% interest in Murrungama.

Review of operations and activities continued
for the year ended 30 June 2020

FINANCIAL REVIEW CONTINUED

FINANCIAL PERFORMANCE CONTINUED

Equity

Total equity decreased by $2.7 million from $44.8 million to $42.1 million, and includes:

- Current year loss after income tax of $9.6 million.
- The fair value adjustment down, net of tax, through comprehensive income of $1.0 million in respect to the revaluation of the Lakes Oil NL holdings.
- Net shares issued of $7.9 million during the financial year.

Cashflow

Armour reported net cash outflow from operating activities of $2.7 million (2019: $0.9 million) for the year ended 30 June 2020. Contributing to this was lower revenues received this year from the several uncontrollable factors and a drop in production. Cashflows from investing activities primarily represents payments for Armour's development wells including MC5A, MCN1 and HS4, offset but the $15 million received from Santos for ATP1087. Cashflows from financing activities relate to the receipt of funding under equity raisings, offset the repayment of the Company's FIIG Corporate Bond amortisations and Tribeca Facility repayments.

Directors' report
for the year ended 30 June 2020

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Armour Energy Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

DIRECTORS

The following persons were Directors of Armour Energy Limited during the whole of the financial year and up to the date of this report, unless otherwise stated.

Nicholas Mather	Executive Chairman
Stephen Bizzell	Non-Executive Director
Roland Sleeman	Independent Non-Executive Director
Eytan Uliel	Independent Non-Executive Director

INFORMATION ON DIRECTORS

The details of the Directors in office during the year and at the date of this report (unless otherwise stated) are set out in this section.

Name	Nicholas Mather (appointed 18 December 2009)
Title	Executive Chairman
Qualifications	BSc (Hons, Geol), MAusIMM
Experience and expertise	Mr Mather's special area of expertise if the generation of and entry into undervalued or unrecognised resources 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 campaigns, and managing emerging resource companies, Mr Mather brings a wealth of valuable experience.
Other current directorships	DGR Global Limited NewPeak Metals Limited (formerly Dark Horse Resources Limited) Aus Tin Mining Limited Lakes Oil NL SolGold plc, which is listed on the London Stock Exchange (LSE) and Toronto Exchange (TSX) IronRidge Resources Limited, which is listed on the London Alternative Investment Market (AIM)
Former directorships (last 3 years)	None
Special responsibilities	Executive Chairman, Member of the Remuneration Committee
Interests in shares	6,169,912
Interests in options	1,260,971

Directors' report continued
for the year ended 30 June 2020

INFORMATION ON DIRECTORS CONTINUED

Name	Stephen Bizzell
Title	Non-Executive Director
Qualifications	B.Comm, MAICD
Experience and expertise	Mr Bizzell is the Chairman of boutique advisory and funds management group Bizzell Capital Partners Pty Ltd. Mr Bizzell was previously 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 co-founder and Non-Executive Director of Bow Energy Ltd until its takeover for $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. Mr Bizzell qualified as a chartered accountant and early in his career was employed in the corporate finance division of Ernst and Young and the Corporate Tax division of Coopers and Lybrand.
Other current directorships	Renascor Resources Limited Laneway Resources Limited Strike Energy Limited
Former directorships (last 3 years)	UIL Energy Limited (resigned 27 December 2018) Stanmore Coal Limited (resigned 15 May 2020)
Special responsibilities	Chair of the Audit and Risk Committee; Member of the Remuneration Committee; Member of the Health, Safety and Environment Committee
Interests in shares	13,287,066
Interests in options	11,814,005

Name	Roland Sleeman
Title	Independent Non-Executive Director
Qualifications	B.Eng (Mech), MBA
Experience and expertise	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 is currently Chief Executive Officer of Lakes Oil NL. 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.
Other current directorships	Lakes Oil NL
Former directorships (last 3 years)	None
Special responsibilities	Chair of the Remuneration Committee; Chair of the Health, Safety and Environment Committee; Member of the Audit and Risk Committee
Interests in shares	58,333
Interests in options	Nil

Name	Eytan Uliel
Title	Independent Non-Executive Director
Qualifications	BA, LLB
Experience and expertise	Mr Uliel is a finance executive with extensive oil and gas industry experience. Since 2015 he has served as Commercial Director of Bahamas Petroleum Plc, a UK Listed company, with conventional oil exploration acreage offshore The Bahamas. From 2009 to 2014, Eytan was Chief Financial Officer and Chief Commercial Officer of Dart Energy Limited, an ASX listed company that had unconventional gas assets (coal bed methane and shale gas) in Australia, Asia and Europe, and Chief Commercial Officer of its predecessor Company, Arrow International Limited, a Singapore based company that had unconventional gas assets primarily in Asia and Australia.
Other current directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Member of the Audit and Risk Committee
Interests in shares	Nil
Interests in options	Nil

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated. 'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

COMPANY SECRETARY

Karl Schlobohm | B.Comm, B.Econ, M.Tax, CA, FGIA

Mr Schlobohm is a Chartered Accountant with over 25 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 also acts as the Company Secretary for ASX-listed DGR Global Ltd, NewPeak Metals Ltd (formerly Dark Horse Resources Ltd), Aus Tin Mining Ltd, LSE-/TSX-listed SolGold plc and AIM-listed IronRidge Resources Ltd.

MEETINGS OF DIRECTORS

	Full Board		Audit and Risk Committee		HSE Committee	
Director	Attended	Held	Attended	Held	Attended	Held
Nicholas Mather	14	14	–	–	–	–
Stephen Bizzell	14	14	2	2	1	1
Roland Sleeman	12	14	2	2	1	1
Eytan Uliel	11	14	–	2	–	–

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

CORPORATE STRUCTURE

Armour Energy Limited 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 subsequently became an ASX-listed company on 26 April 2012.

Directors' report continued
for the year ended 30 June 2020

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were oil and gas exploration, and production. There was no significant change in the nature of these activities.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no other significant change in the state of the affairs of the Company during the financial year that is not detailed elsewhere in this report.

OPERATING AND FINANCIAL REVIEW

The loss for Armour after providing for income tax amounted to $9,570,777 (30 June 2019: $11,683,748).

FINANCIAL PERFORMANCE AND CASH FLOWS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Revenue from Contracts with Customers	21,103,928	27,819,335
Cost of Sales	(19,484,314)	(19,018,113)
Gross Profit	1,619,614	8,801,222
Other income and expenses	(3,649,157)	(6,333,678)
Finance income	127,546	192,524
Finance expenses	(7,192,469)	(13,656,309)
Income tax expense	(476,310)	(687,507)
Loss after income tax expense	(9,570,777)	(11,683,748)

Revenue from Contracts with Customers and Gross Profit significantly decreased during H2 largely due to lower commodity prices (Oil and Gas), as a result of COVID-19 impacting the East Coast market. This was primarily caused by LNG customers claiming Force Majeure on Australian Oil and Gas producers which caused an excess of gas flooding the market.

Finance expenses due to the early redemption of the Company's convertible notes in FY 2019.

UNDERLYING EBITDA (NON-IFRS MEASURE)

Underlying EBITDA reflects statutory EBITDA as adjusted to reflect the Director's assessment of the result for the ongoing business activities of Armour. These numbers have not been audited.

	Consolidated	
	30 June 2020 $	30 June 2019 $
Profit/(loss) before income tax and net finance expenses	(1,901,998)	2,660,068
Depreciation and amortisation	3,008,041	1,135,632
Finance income	(127,546)	(192,524)
Impairment and write-off of exploration assets	720,491	71,329
Net gain or loss on disposal of assets	(28,218)	61,976
Earnings before interest, depreciation, and amortisation (EBITDA)	1,670,770	3,736,481

CASH FLOW

In the year ended 30 June 2020, a total net cash outflow of $5.9 million was recorded. The net inflow from operating activities was $3.3 million with $21.1 million of revenue positively contributing from operations.

Cash outflows from investing activities were $6.6 million, mainly attributable to the funds received from the execution of the farm-in agreement with Santos covering Armour's oil and gas exploration project in Northern Australia, offset by costs relating to the development and exploration activities around the Kincora project.

During the year, Armour closed a private placement in September 2019, raising gross proceeds of $4.0 million via the allotment of 80 million shares. Quarterly principal and interest repayments totalling $9.8 million for the $55.0 million Secured Partially Amortising Notes were made during the year. Net cash outflows from financing activities were $2.7 million.

	Consolidated	
	30 June 2020 $	30 June 2019 $
Net cash at the beginning of the year	9,225,176	5,104,627
Net cash from operating activities	(3,047,801)	(7,745,717)
Net cash from investing activities	(6,824,736)	(13,688,453)
Net cash from financing activities	3,893,064	25,554,719
Net cash at the end of the year	3,245,703	9,225,176

Directors' report continued
for the year ended 30 June 2020

FUTURE LIKELY DEVELOPMENTS, PROSPECTS, AND BUSINESS STRATEGIES

There are no further developments of which the Directors are aware of that is not detailed elsewhere in this report which the Directors believe comment on, or disclosure of, would prejudice the interests of Armour.

OPTIONS ON ISSUE

At the date of this report, the unissued ordinary shares of Armour Energy Limited under option are as follows:

Grant date	Date of expiry	Exercise price	Number under option
29 March 2016	29 March 2021	$0.195	2,550,000
29 March 2016	29 March 2021	$0.345	2,550,000
29 March 2016	29 March 2021	$0.495	1,650,000
31 July 2018	31 July 2021	$0.161	41,000,000
01 October 2019	30 September 2023	$0.080	40,000,000
17 December 2019	30 September 2023	$0.080	8,000,000
23 June 2020	29 February 2024	$0.050	31,166,497
30 June 2020	29 February 2024	$0.050	7,018,341
12 August 2020	29 February 2024	$0.050	9,424,831
24 August 2020	29 February 2024	$0.050	16,894,150
17 September 2020	29 February 2024	$0.050	35,929,524
			196,183,343

REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel remuneration arrangements for Armour, 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 is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Group performance and link to remuneration
- Other transactions with key management personnel

The remuneration report details the remuneration arrangements for Key Management Personnel ("KMP") who are defined as those persons who have authority and responsibility for planning, directing and controlling the activities of Armour, directly or indirectly, including any Director (whether executive or otherwise) of Armour, including the executive team.

The following persons are considered Key Management Personnel for Armour:

DIRECTORS

Nicholas Mather – Executive Chairman

Roland Sleeman – Non-Executive Director

Stephen Bizzell – Non-Executive Director

Eytan Uliel – Non-Executive Director

EXECUTIVES

Current Executives

Bradley Lingo – Chief Executive Officer (12 June 2020 to date)

Karl Schlobohm – Company Secretary

Michael Laurent – Chief Operating Officer (1 July 2020 to date) previously General Manager – Development (3 June 2019 to 30 June 2020)

Erin Clark – Chief Financial Officer (acting) (7 August to date)

Previous Executives

Richard Aden – Chief Financial Officer (23 July 2018 to 7 August 2020)

Nathan Rayner – Chief Operating Officer (from 26 November 2018 to 19 July 2019)

Roger Cressey – Chief Executive Officer (21 November 2011 to 23 October 2019)

Richard Fenton – Interim Chief Executive Officer (21 October 2019 to 20 March 2020)

Bruce Clement – Chief Executive

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.

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

Armour'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 Armour.

The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- alignment of executive compensation
- transparency

The Remuneration Committee is responsible for providing recommendations to the Board of Directors on the remuneration arrangements for its directors and executives. The performance of Armour depends on the quality of its directors and executives.

Directors' report continued
for the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) CONTINUED

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION CONTINUED

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. 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 Armour. Further details on the remuneration of Directors and Executives are set out in this Remuneration Report.

Armour aims to reward the Executives with a level and mix of remuneration commensurate with their position and responsibilities within Armour. The Board's policy is to align Director and Executive objectives with shareholder and business objectives by providing a fixed remuneration component.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- link reward with the strategic goals and performance of Armour.
- focusing on sustained growth in shareholder wealth and achievement of these strategic goals; and
- ensuring total remuneration is competitive by market standards.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive Directors' Remuneration

The board seeks to set aggregate remuneration at a level which provides Armour with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders. Armour's specific policy for determining the nature and amount of remuneration of non-executive directors is as outlined below.

The Company's constitution and ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 9 November 2011 where the shareholders approved a maximum annual aggregate remuneration of $500,000.

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Remuneration Committee. The Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

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, Armour 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 Armour or otherwise in connection with the business of Armour.

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 Armour's directors and officers insurance policy
- Directors are made aware of Armour's Corporate Governance policies and procedures
- Directors are ordinarily entitled to remuneration of $50,000 per annum, plus reasonable expenses for travel and accommodation, however, as of May 2020 there was a 20% reduction to lower Corporate costs
- There are no fixed terms or notice periods, with the exception of the Chairman

The remuneration of non-executive directors for the year ended 30 June 2020 is detailed on page 32 of this remuneration report.

Executive remuneration

Armour aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components and is commensurate with their position and responsibilities within Armour and to:

- link reward with the strategic goals and performance of Armour
- align the interests of the executives with those of shareholders
- ensure total remuneration is competitive by market standards

The remuneration of the executives is recommended by the Remuneration Committee and determined 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:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration. The remuneration of executive directors and other KMP for the year ended 30 June 2020 is detailed on page 32 of this Remuneration report.

Directors' report continued
for the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) CONTINUED

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION CONTINUED

Voting and comments made at the Company's 2019 Annual General Meeting ('AGM')

At the 2019 AGM, 99.8% of the eligible votes received supported the adoption of the remuneration report for the year ended 30 June 2019. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

DETAILS OF REMUNERATION

Amounts of remuneration

Details of the remuneration of key management personnel (KMP) of Armour are set out in the following tables.

	Short-term benefits			Post-employment benefits	Share-based payments		
	Cash salary and fees	Cash bonus	Non-monetary	Superannuation	Equity-settled Options	Equity-settled Shares	Total
30 June 2020	$	$	$	$	$	$	$
Directors:							
N Mather	203,000	–	–	–	–	–	203,000
S Bizzell	48,333	–	–	–	–	–	48,333
R Sleeman	48,333	–	–	–	–	–	48,333
E Uliel	48,333	–	–	–	–	–	48,333
Other Key Management Personnel:							
K Schlobohm	50,000	–	–	–	–	–	50,000
B Lingo**	13,800	–	817	1,288	–	5,382	21,287
M Laurent****	279,635	–	20,650	20,772	–	–	321,057
R Aden*	322,825	2,012	26,775	21,175	–	–	372,787
B Clement**	46,313	–	–	2,404	–	–	48,717
R Fenton**	329,528	–	–	–	–	–	329,528
R Cressey**	230,562	1,934	–	21,134	–	67,534	321,164
N Rayner***	117,054	–	–	6,947	–	–	124,001
	1,737,716	3,946	48,242	73,720	–	72,916	1,936,540

* Mr Stubbs retired on 27 November 2018. Mr Cressey was CEO from 21 November 2011 to 23 October 2019.
** Mr Fenton was employed from 16 July 2018 to 23 May 2019. Mr Rayner was employed between 26 November 2018 and 19 July 2019.
*** Mr Jayasuriya was interim CFO from 28 April 2018 to 23 July 2018. Mr Aden commenced employment as CFO on 23 July 2018 until 7 August 2020.

All other directors were not entitled to or awarded any performance-based incentives or bonuses during the current or prior year.

Armour has an incentive scheme which rewards employees for contributing to the overall performance of Armour. The underlying objective of the incentive arrangements is to:

- Ensure employees understand Armour's business drivers, objectives, and performance
- Strengthen the involvement and focus of employees in achieving the business' objectives
- Improve teamwork, communication, and interaction among employees

Under the incentive scheme, Armour may at its discretion, on an annual basis, pay a bonus to permanent employees who are employed by Armour 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:

- For 70% of the potential maximum award, the individual employee's performance relative to pre-agreed key performance indicators ('KPIs')
- For 30% of the potential maximum award, the overall corporate performance compared to predetermined corporate performance targets but subject to satisfactory personal performance

For the year ended 30 June 2020 $67,534 of other employment benefits were taken as ordinary shares in lieu of cash (2019: $99,961). The number of shares awarded was determined with reference to the share value based on 20-day VWAP at the time of qualification for the share allotment.

SERVICE AGREEMENTS

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

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Bradley Lingo

Title: Chief Executive Officer

Agreement commenced: 12 June 2020

Details: Mr Lingo is entitled to a base remuneration of $276,000 per annum, exclusive of superannuation.

Mr Lingo is entitled to participate in any Incentive Plan implemented or established by the Company. Both Armour and Mr Lingo are entitled to terminate the contract upon giving six (6) months written notice. Armour is entitled to terminate the agreement immediately upon Mr Lingo's insolvency or certain acts of misconduct. Mr Lingo is entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, responsibilities, or authority.

Mr Lingo is entitled to a bonus, to be assessed annually by the Board, based on the following weighted KPI's. The base remuneration for the bonus payment calculation will be a maximum 100% of the sum of $100,000 (Base Amount), calculated on an annual basis unless otherwise agreed by the Board.

Directors' report continued

for the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) CONTINUED

SERVICE AGREEMENTS CONTINUED

Bradley Lingo continued

No	KPIs	Contribution Percentage
1	The Board approving a debt or equity refinancing of the FIIG Notes.	50%
2	The Company achieving a stabilised flow rate of in excess of 14TJ's per day from the Kincora Gas Project.	25%
3	The Board approving the entering into of a farm-out or other commercial agreement in respect of the NT Assets.	25%
	TOTAL	100%

In addition to the bonus payment, Mr Lingo is entitled to the below Performance Shares:

No	Performance Criteria	Number of Performance Shares
1.	On the first Commercial Discovery in the Co-Era Assets being determined in accordance with recognised standards in the oil and gas industry and announced by the Company	900,000
2.	The VWAP for Shares trading on ASX for 20 consecutive days is not less than 500% over the closing price for Shares on the last trading day before the Commencement Date.	1,800,000
3.	The Board approving the entering into of a farm- out or other commercial agreement in respect of the NT Assets.	1,350,000
4.	The Board approving a refinancing of the FIIG Notes.	1,350,000
5.	The Company achieving a stabilised flow rate of in excess of 14TJ's per day from the Kincora Gas Project	900,000
6.	On the first Commercial Discovery on any Licences other than (a) The Kincora Gas Project; and (b) The CoEra Assets.	900,000

Nicholas Mather

Title: Executive Chairman

Agreement commenced: 18 December 2009

Term of agreement: On-going

Details: Mr Mather is ordinarily entitled to a base remuneration of $210,000 per annum, inclusive of superannuation. However, due to cost reductions this was reduced from April 2020.

Michael Laurent

Title: Chief Operating Officer

Agreement commenced: 1 July 2020

Term of agreement: On-going

Details: Mr Laurent is ordinarily entitled to a base remuneration of $421,797 per annum, inclusive of superannuation.

Mr Laurent was employed from 26 March 2019 as Subsurface Manager but was subsequently promoted to GM Development effective 19 July 2019.

Mr Laurent commenced as COO on 1 July 2020 and is now entitled to $100,000 of AJQ Shares, to bring his total package to $421,797 per annum. The shares are equivalent to 2.65 million shares and will be escrowed for 12 months from issuance.

Bonus payments are at the discretion of the Remuneration committee.

Employment contracts entered into with other KMP all contain the following key terms:

- Performance based salary increases and/or bonuses paid at the discretion of the Board
- Short and long-term incentives, such as options paid at the discretion of the Board
- Resignation / notice period of 3 months by either the KMP or the Company
- No payouts upon resignation or termination, outside industrial regulation (i.e. 'golden handshakes')

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.

All directors and key management personnel have no entitlement to termination payments in the event of removal for misconduct.

The base remuneration, inclusive of superannuation, included in the contractual arrangements to other key management personnel is set out below:

Key Management Personnel	Base salary incl super	Maximum bonus payable
B Lingo**	$276,000	$100,000
K Schlobohm	$50,000	–
M Laurent	$320,000	$96,000
R Aden*	$340,000	$102,000
B Clement**	$475,000	$213,750
R Fenton**	$329,528	–
R Cressey**	$410,613	$374,989
N Rayner***	$340,000	$102,000

* Mr Aden was employed as CFO from 23 July 2019 to 07 August 2020.
** Mr Cressey was CEO from 21 November 2011 to 23 October 2019. Mr Fenton was Interim CEO from 21 October 2019 to 20 March 2020. Mr Clement was CEO from 12 March 2020 to 17 April 2020. Mr Lingo commenced as CEO on 12 June 2020.
*** Mr Rayner was employed as COO from 26 November 2018 to 19 July 2019.

SHARE-BASED COMPENSATION

During the year ended 30 June 2020, there were no shares issued in lieu of fixed remuneration.

OPTIONS GRANTED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2020

Under the Company's employee share option plan (ESOP), which was approved by shareholders at the 2016 AGM, share 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 Armour to align comparative shareholder return and reward for directors and executives.

Directors' report continued
for the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) CONTINUED

OPTIONS GRANTED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2020 CONTINUED

During the year ended 30 June 2020, there were no options granted as remuneration to Key Management Personnel (2019: nil).

Details of all options on issue over unissued ordinary shares in Armour Energy Ltd on 30 June 2020 to Key Management Personnel as remuneration are set out in the table below:

KMP	Vesting date – all 100% vested	Grant date	Grant number	Exercise price	Expiry Date	Number vested	Value per option at grant date*	Balance on 30 June 2020
K Schlobohm	29/03/2019	29/03/2016	300,000	$0.195	29/03/2021	300,000	$0.06	300,000
K Schlobohm	29/03/2019	29/03/2016	300,000	$0.345	29/03/2021	300,000	$0.06	300,000
K Schlobohm	29/03/2019	29/03/2016	300,000	$0.495	29/03/2021	300,000	$0.06	300,000
			900,000			900,000		900,000

* 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.

PERFORMANCE SHARES

The table below shows how many performance shares were granted and vested during the year. No performance shares were forfeited during the year.

KMP	Expected vesting date	Grant date	Grant number	Exercise price	Number vested	Value per PS at grant date*	Balance on 30 June 2020
B Lingo	30/06/2022	12/06/2020	900,000	–	–	$0.03	900,000
B Lingo	12/06/2025	12/06/2020	1,800,000	–	–	$0.02	1,800,000
B Lingo	31/03/2021	12/06/2020	1,350,000	–	–	$0.03	1,350,000
B Lingo	31/12/2021	12/06/2020	1,350,000	–	–	$0.03	1,350,000
B Lingo	31/12/2021	12/06/2020	900,000	–	–	$0.03	900,000
B Lingo	30/06/2023	12/06/2020	900,000	–	–	$0.03	900,000
			7,200,000		–		7,200,000

* With the exception of tranche 2, value per performance share at grant date is calculated using the share price at the date of issue. Tranche 2 contains a market based performance conditions and the value per performance share at grant date is calculated using a Monte Carlo simulation model, which takes into account factors such as the market based vesting condition, the share price at the date of issue and volatility of the underlying share price and the time to maturity of the performance share.

SHARES ISSUED ON EXERCISE OF REMUNERATION OPTIONS

There were no options exercised during the year that were previously granted as remuneration (2019: nil).

SHAREHOLDINGS

Details of all ordinary shares in Armour Energy Ltd as of 30 June 2020 held by Key Management Personnel is set out below:

Directors / Key Management Personnel	Balance at 1 Jul 2019	Granted as / in lieu of compensation	Options exercised	Net change other	Balance at 30 Jun 2020
N Mather	3,647,968	-	-	1,182,396	4,830,364
S Bizzell	1,659,051	-	-	553,015	2,212,066
R Sleeman	58,333	-	-	-	58,333
R Cressey (*)	2,120,054	-	-	(2,120,054)	-
K Schlobohm	391,049	-	-	-	391,049
R Aden (**)	595,462	-	-	-	595,462
R Fenton (*)	381,287	-	-	(381,287)	-
N Rayner (***)	316,045	-	-	(316,045)	-
	9,169,249	-	-	(1,081,975)	8,087,274

* Mr Cressey was CEO from 21 November 2011 to 23 October 2019. Mr Fenton was Interim CEO from 21 October 2019 to 20 March 2020.
** Mr Aden was employed as CFO from 23 July 2019 to 07 August 2020.
*** Mr Rayner was employed as COO from 26 November 2018 to 19 July 2019.

NOTE: "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.

All other directors and key management personnel did not hold any shares in the Company at the start, during or at the end of the year. There were no shares held nominally as of 30 June 2020 (2019: nil).

Option holdings

Directors/ Key management personnel	Balance at 1 Jul 2019	Granted as remuneration	Options exercised	Net change other	Balance at 30 Jun 2020	Total vested	Total vested and exercisable	Total unvested and un-exercisable
N Mather	1,500,000	-	-	(908,803)	591,197	591,197	591,197	-
S Bizzell	1,500,000	-	-	4,776,505	6,276,505	6,276,505	6,276,505	-
R Sleeman	750,000	-	-	(750,000)	-	-	-	-
R Cressey (*)	4,100,000	-	-	(4,100,000)	-	-	-	-
K Schlobohm	900,000	-	-	-	900,000	900,000	900,000	-
	8,750,000	-	-	(982,298)	7,767,702	7,767,702	7,767,702	-

* Mr Cressey was employed from 21 November 2011 to 23 October 2019.

Note: "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.

All other directors and key management personnel did not hold any options in the Company at the start, during or at the end of the year. There were no options held nominally on 30 June 2020 (2019: nil).

Directors' report continued
for the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) CONTINUED

PERFORMANCE SHARE HOLDINGS CONTINUED

Details of all performance shareholdings in Armour Energy Ltd as of 30 June 2020 held by Key Management Personnel is set out below. The performance shares carry no dividend or voting rights. See page 34 above for conditions that must be satisfied for the performance shares to vest.

When exercisable, each performance share is convertible into one ordinary share of Armour Energy Limited. If an executive ceases employment before the shares vest, the shares will be forfeited.

Directors/ Key management personnel	Balance at 1 Jul 2019	Granted as remuneration	Performance shares exercised	Balance at 30 Jun 2020	Total vested	Total vested and exercisable	Total unvested and un-exercisable
B Lingo	–	7,200,000	–	7,200,000	–	–	7,200,000
	–	7,200,000	–	7,200,000	–	–	7,200,000

GROUP PERFORMANCE AND LINK TO REMUNERATION

During the financial year, Armour has generated losses as its principal activity was the discovery and production of world class oil and gas assets, as well as exploration for economically viable reserves of both conventional and unconventional natural oil and gas.

Armour Energy Limited listed on the ASX on 26 April 2012. The closing share price as of 30 June 2020 was $0.02.

The earnings of Armour for the five years to 30 June 2020 are summarised below:

	2020	2019	2018	2017	2016
	$	$	$	$	$
Sales revenue	21,103,928	27,819,335	14,748,819	572,600	153,569
Profit (loss) after income tax	(9,570,776)	(11,683,748)	(12,198,333)	(11,474,692)	(18,873,927)

Armour was in the exploration and development stage up until the 2018 financial year and as such, the link between remuneration, Group performance and shareholder wealth was 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.

Armour is currently in the production and development stage, therefore the link between Group performance and shareholder wealth should be more strongly linked in future years.

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2020	2019	2018	2017	2016
Share price at financial year end (cents)	2.0	6.7	8.9	7.9	6.0

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

Company debt instruments held by key management personnel

There were no convertible notes held by key management personnel on 30 June 2020.

The early redemption of all existing Convertible Notes on issue on 29 March 2019 was repaid through a refinancing transaction involving the issue of the $55 million new Secured Partially Amortising Notes, some of which were subscribed for by key management personnel, as set out below.

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals / other	Balance at the end of the year
Corporate bond holdings					
Stephen Bizzell	100	-	-	-	100

	Interest	Principal	Additionals / disposals	Total paid during 2020
	$	$	$	$
Corporate bond payments				
Stephen Bizzell	10,828	7,000	-	17,828

Bizzell Capital Partners Pty Ltd

Mr Stephen Bizzell (a Director), is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd.

Armour entered into an agreement with Bizzell Capital Partners Pty Ltd as Lead Manager for the capital raising program detailed in an ASX announcement on 23 September 2019.

On 23 September 2019, Armour Energy completed a private placement which raised gross proceeds of $4 million via the allotment of 80 million shares, with attached unlisted options. Bizzell Capital Partners managed the private placement and was paid a capital raising fee of $240,000 (net of GST) on arm's length terms.

Bizzell Capital Partners was also entitled to receive an allotment of 8 million unlisted options exercisable at 8 cents through to 30 September 2023. Of the 8 million, 2 million were subsequently transferred to an unrelated sub-underwriter. This transaction was approved by shareholders at the company's AGM on 26 November 2019.

In an ASX announcement on 15 June 2020, Armour entered into an agreement with Bizzell Capital Partners Pty Ltd and JB Advisory as Joint Lead Managers for the capital raising program. Armour announced a further capital raising program comprising a Placement and an Entitlement Offer, with the Entitlement Offer being fully underwritten by Bizzell Capital Partners.

During the year ended 30 June 2020, Armour also paid Bizzell Capital Partners $22,687 under the Underwriting Agreement, and $73,352 in relation to the allotment of Placement Shares on 23 June 2020.

Directors' report continued
for the year ended 30 June 2020

REMUNERATION REPORT (AUDITED) CONTINUED

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES CONTINUED

Bizzell Capital Partners Pty Ltd continued

Under the agreement, Bizzell Capital Partners Pty Ltd will received a management fee of one (1) percent of the funds raised under the entitlement offer, the placement and conditional placement, an underwriting fee of five (5) percent of all new shares issued under the entitlement offer, a placement fee of five (5) percent of all new shares issued and any funds raised under the Conditional Placement and an option fee representing 4 options for every $1 raised pursuant to the Placement and Conditional Placement (subject to shareholder approval).

Samuel Holdings Pty Ltd

On 15 June 2020, it was announced that The Entitlement Offer was expected to partly be sub-underwritten by Samuel Holdings Pty Ltd (as trustee).

Samuel Holdings Pty Ltd has agreed to sub-underwrite up to 60,933,755 New Shares of the Shortfall, on the basis that no New Shares will be issued that would result in Samuel Holdings Pty Ltd and its associates to have in aggregate no more than 20% of the Voting Power of the Company. Samuel Holdings Pty Ltd will receive a fee of five (5) percent of the sub-underwritten amount from Bizzell Capital Partners and Armour will issue four (4) Underwriter Options for every $1 of the sub-underwritten amount, subject to Shareholder approval.

Other than the above, there were no other transactions with Key Management Personnel for the year ended 30 June 2020.

THIS CONCLUDES THE REMUNERATION REPORT, WHICH HAS BEEN AUDITED.

INDEMNITY AND INSURANCE OF OFFICERS

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

EVENTS AFTER THE REPORTING DATE

Other than the below subsequent events, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect Armour's operations, the results of those operations, or Armour's state of affairs in future financial years.

- On 1 July 2020, Armour announced that Cordillo Energy Pty Ltd, a 100% subsidiary of Oilex Limited and one of the companies include in the Oilex transaction with Armour, was successful in bidding for Block CO2019-E in the Northern Flank of the Cooper Basin, South Australia.
- On 10 July 2020, the Company announced a further extension to the closing date of the Entitlement Offer to 5 August 2020. On the 18 September 2020, the Company announced that it had successfully completed the capital raising and will raise a total of $15 million, subject to necessary approvals.
- On 27 July 2020, the Farmin Agreement between the Company and Santos QNT Pty Ltd was amended to accelerate payments relating to the permit award process, resulting in Santos made a one-off, unconditional accelerated cash payment of $6 million in total in full consideration of all future contingent permit transfer payments covering the Application Areas.
- On 15 Augusts 2020, the Company received the second payment of $3.5 million from the Sales and Purchase Agreement with Australia Pacific LNG Pty Ltd for the sale of Armour's 10% interest in Petroleum Lease 1084 known as the "Murrungama block" (PL1084).
- As a result of the above asset transactions, Armour made a $5.3 million early principal amortisation payment on the Secured Amortising Notes during August 2020.
- On 18 August 2020, Armour executed a term sheet with Auburn Resources Limited, a public, unlisted company, for the sale of Ripple Resources Pty Ltd, for 5,600,000 fully paid shares in Ripple Resources Pty Ltd.

DIVIDENDS

There were no dividends paid, recommended or declared during the current or previous financial year or since the end of the year.

ENVIRONMENTAL REGULATION

Armour is subject to significant environmental regulation in relation to its operations. Armour has conducted an extensive review of the environmental status of the Surat Basin processing plant and associated exploration and production fields, used for the production of Oil, Gas, LPG and Condensate, and has estimated the potential costs for future restoration and abandonment to be $6,688,065.

Armour has complied with the conditions of its various Environmental Licences to Operate under the Environmental Protection Act 1994, through the implementation of its Health, Safety and Environmental Management System (HSEMS) and assurance processes.

During the financial year, the Kincora Gas Project recorded three recordable incidents. Armour Energy has not received any formal notices or penalties from regulatory authorities during the period but is still waiting for Regulator close out in regard to the prescribed incident (small uncontrolled gas leak).

Regulator Inspections of our operating sites by the Department of Natural Resources, Mines and Energy (DNRME) has not determined any regulatory noncompliance and Armour continues to work with the regulators to meet obligations.

Directors' report continued
for the year ended 30 June 2020

CLIMATE CHANGE

Armour recognises that the world is transitioning to a low-carbon future, and that climate change is an important political, social, environmental, and commercial issue. In addition, the Company recognises the increasing level of investor and regulatory expectation that the particular risks faced by the Company – and its stance generally on climate change issues.

Refer to the 'Review of Operations and Activities' for more information.

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 Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 42 to the financial statements. The non-audit services totalling $0.3 million relates to other advisory services provided.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 42 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF BDO

There are no officers of the Company who are former partners of BDO.

ROUNDING OF AMOUNTS

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Armour support and have adhered to the ASX corporate governance principles, where appropriate for the Company. Armour's corporate governance statement has been released as a separate document and is located on our website at armourenergy.com.au/corporategovernance.

This Directors' report is made in accordance with a resolution of Directors, pursuant to Section 298(2)(a) of the Corporations Act.

On behalf of the Directors:

Nicholas Mather
Chairman

30 September 2020
Brisbane

Directors' report continued
for the year ended 30 June 2020

MANAGING RISK

Armour is a producing oil and gas Group operating in a volatile pricing market. Factors specific to Armour or those which impact the market more broadly, may individually or in combination impact the financial and operating performance of Armour. These events may be beyond the control of the Board or management of Armour Energy.

The major risks associated with an investment in Armour are summarised below.

OPERATING RISKS

Armour has a single operation in production and is therefore reliant on continued performance of operations at the Kincora Gas project. There are numerous operating risks which may result in a reduction in performance that decreases Armour's ability to produce gas to meet customer shipping needs. The risks include, but are not limited to, factors such as weather conditions, machinery failure, critical infrastructure failure or natural disasters.

MARKET RISKS

The key drivers for the business's financial performance are commodity price risk. Armour is not of a size to have influence on gas or other petroleum product prices and is therefore a price-taker in general terms.

GEOLOGICAL RISKS

Resource and Reserve estimates are prepared by external experts in accordance with the JORC code for reporting. The estimates are inherently subjective in some respects therefore there is a risk that the interpretation of data may not align with the future experienced conditions in the field.

Due care is taken with each estimation.

REGULATORY AND LAND ACCESS RISKS

Armour's operations and projects are subject to State and Federal laws and regulation regarding environmental hazards. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to remediate current and former facilities and locations where operations are or were conducted. The ability to secure and undertake exploration and operational activities within prospective areas is also reliant upon satisfactory resolution of native title and management of overlapping tenure.

To address these risks, Armour develops strong, long-term effective relationships with landholders, with a focus on developing mutually acceptable access arrangements as well as appropriate legal and technical advice to ensure it manages its compliance obligations appropriately.

Armour minimises these risks by conducting its activities in an environmentally responsible manner, in accordance with applicable laws and regulations and where possible, by carrying appropriate insurance coverage. In addition, Armour engages experienced consultants and other technical advisors to provide expert advice where necessary.

SAFETY RISK

Safety remains of critical importance in the planning, organisation and execution of Armour Energy's exploration and operational activities. Armour is committed to providing and maintaining a working environment in which its employees are not exposed to hazards that will jeopardise an employee's health and safety, or the health and safety of others associated with our business.

SOVEREIGN RISK

Armour has limited influence over the direction and development of government policy. Successive changes to the Australian energy and resources policies, including taxation and innovation policies, have impacted Australia's global competitiveness and reduced the attractiveness of Australian fossil-fuel projects to foreign investors.

Armour's view is that whilst there is currently a negative perception of fossil fuels, gas and LPG being less carbon intensive than alternate energy sources (such as thermal coal) will continue to play a significant role as both a domestic and export commodity.

ACCESS TO CAPITAL

On 30 June 2020, Armour remains well funded with cash reserves expected to be sufficient to meet the business's operating costs. Armour Energy's ability to effectively continue as an oil and gas producing business is dependent upon several factors, including the success of the Kincora Gas Plant, successful exploration and subsequent exploitation of Armour's tenements.

Should these avenues be delayed or fail to materialise, Armour has a proven history of the ability to successfully raise additional funding through debt, equity or farm out/sell down to allow Armour to continue as a going concern and meet its debts as and when they fall due.

A recent example of the ability to raise funding via equity was the announcement of the 18 September 2020 of the $15 million placement and entitlement offer.

SUSTAINABILITY

SOCIAL AND CORPORATE RESPONSIBILITY

During the year, the Group invested in additional resources across multiple disciplines of Corporate, Subsurface and Geology, Operations, Land Access and Health and Safety. The Group now has 45 employees, of which 7 are women. The additional resources were required to support the Kincora Project and assist with achieving the milestones set out in the Group's growth strategy.

Where possible, the Group will recruit local businesses, contractors and employees that can support the Kincora Project. For our development and exploration activities, wherever possible we source local materials such as gravel and construction water from our local landholders and local businesses. A strong presence in the Roma and Surat communities is a key focus for the Group, including fostering positive relationships with other key stakeholders such as landowners, governments, and community groups.

Armour maintains its Operational acreage across a large number of private landholders. Seamlessly interfacing with cattle and cropping routines is the result of open communication and relationships built on mutual trust and respect. Development and exploration schedules are developed in consultation with landholders to minimise local impacts to their business.

Directors' report continued
for the year ended 30 June 2020

SUSTAINABILITY CONTINUED

HEALTH AND SAFETY

The safety of our employees, contractors, and the communities where we operate continues to drive Armour focus to continually improve our Safety Management System based on review of our safety performance and the effectiveness of controls that we implement.

For the 2020 financial year, regrettably the Kincora Gas Project recorded 3 recordable incidents, which when converted to a base of one-million man hours, results in Armour Energy reporting a company TRIFR (Total Reportable Incident Frequency Rate) of 33. Armour is striving for TRIFR returning to 0 through a focus on Driver Safety and Working in Hot Environments.

Inspections of our Operating sites by the Department of Natural Resources, Mines and Energy (DNRME) has not determined any regulatory noncompliance and the group continues to work with the regulators to meet obligations with no formal notices or penalties being received.

INDUSTRY COLLABORATION

In 2019 Armour Energy Ltd joined Safer Together and is committed to being part of an industry working group committed to creating the leadership and collaboration needed to build a strong and consistent safety culture.

ENVIRONMENT

The Group's operations are subject to environmental regulation under federal and state legislation. For the year ended 30 June 2020, Armour Energy reported outstanding environmental performance with 0 recordable environmental incidents reported.

The Group has focused on the continued development and improvement of the Armour Environmental Management System in order to assure that the Group continues to meet all environmental obligations. Armour has been successful in obtaining strategic Environmental Approvals that has led to amalgamation of several Armour Environmental Authorities (EA) to create the Kincora Gas Project EA. The new EA has adopted Streamline Model Conditions that represents a significant commitment from Armour to continue to minimise harm to the environment through complying with conditions that are outcomes-focussed and that provide transparency and consistency across the petroleum industry.

CLIMATE CHANGE DISCLOSURE

Armour recognises that the world is transitioning to a low-carbon future, and that climate change is an important political, social, environmental, and commercial issue. In addition, the Company recognises the increasing level of investor and regulatory expectation that the particular risks faced by the Company – and its stance generally on climate change issues – will be addressed in its Annual Report.

Armour is well positioned to contribute to a lower-carbon future through the production and supply of natural gas. This stems from the fact that emissions from the combustion of natural gas per unit of energy produced are approximately 40% lower than coal. Furthermore, natural gas can significantly improve air quality in urban centres due to its comparative negligible particulate and Sulphur Oxide emissions, together with low Nitrogen Oxide emissions.

Natural gas is also an advantageous fuel for baseload and supplemental power generation supporting the increasing renewables sector, as gas-fired generation can be triggered from zero to full production in minutes and is 40% less carbon-intensive than coal-fired generation.

Whilst gas is a complimentary, transitional fuel supporting intermittent renewable energy generation, it is also important to note that natural gas is also used as a feedstock for many other applications including heating in foundry's and furnaces, plastics and petrochemicals, fertilisers and food manufacturing for which there are limited other viable alternatives.

Armour is currently responsible for only <0.01% of the natural gas produced and sold in, and exported from, Queensland. However, the Company is committed to contributing to a lower-carbon future through the sale of its natural gas products (as above) as well as the reduction of its own carbon footprint.

Armour Energy Ltd can confirm that for the period 2018 – 2019 it met the corporate group thresholds prescribed by the National Greenhouse Gas Reporting (NGER) Act with reporting being completed in October 2019.

The vast majority of the Company's gas-related infrastructure components (gas plant, gas pipelines, well-heads, compressors, and associated field equipment) are essentially "legacy assets" acquired from Origin Energy as part of the overall acquisition of the Kincora Gas Project near Roma in Queensland, which was completed in 2016. Based on the operation and maintenance of these assets during its period of ownership, Armour has established the following initiatives to reduce emissions and environmental impact:

- Reduction of "fugitive emissions" via leak management and preventative maintenance programs.
- Optimisation of the plant to run more efficiently and consume less fuel gas for own use.
- Optimisation of staff movements and logistics to reduce road traffic and distance travelled in our operations and projects.
- Replacement on a needs-basis of old items of plant and equipment with newer items which are less prone to gas leakage, breakdown and are more energy efficient.
- Execution of the Kincora Stack Emission Monitoring Program to provide baseline air emission data for assessment against EPP Air regulatory emission framework. Results show that emissions are below the EPP Air Quality Objectives.
- The responsible and progressive remediation of petroleum facilities that have reached the end of their lives to enable the return of land to the landholder in a condition which complies with all relevant environmental and regulatory requirements.
- New well site facility installations will include electrically driven instrumentation powered by local solar panel arrays.

Furthermore, Armour minimises its impact on land and waterways in relation to development and exploration activities by undertaking the following:

- Assessment of regional and local aquifers to characterise the geochemistry of formation water prior to and during initial stages of exploration and development activities.
- Ongoing baseline monitoring of groundwater quality to detect any changes during and after the cessation of exploration and development lifecycles.
- Assessment and survey of local ecological communities within and around our development, exploration and production tenements, and the implementation of innovative approaches to negate and reduce footprint and minimise vegetation clearing; and
- Staying educated on improved and innovative environmental technologies that could have the greatest potential for reducing overall energy consumption during the exploration and development lifecycles.

Directors' report continued
for the year ended 30 June 2020

SUSTAINABILITY CONTINUED

CLIMATE CHANGE DISCLOSURE CONTINUED

Notwithstanding the favourable landscape for the ongoing production and sale of natural gas as outlined above, Armour anticipates that its activities may be subject to increasing regulation and costs associated with climate change, and/or the management of carbon emissions. The Company is committed to understanding and managing the current and emerging regulatory, reputational, and market-related risks of climate change to its operations. The Company's Executive Team and Audit and Risk Management Committee continue to undertake a detailed review of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for any further or more detailed disclosures required for future reporting periods. However, the Company's view is that there are currently no climate change related risks which are material enough to warrant disclosure in the Company's current period Financial Statements. This includes the potential regulatory, transitional, and physical risks associated with climate change.

The Company is also conscious that other social consensus-based issues connected with climate change and environmental stewardship may impact its operations and cost structures into the future. These are dynamic issues which will need to be monitored and considered in the context of the Company's decisions regarding the use of its capital, the nature and longevity of certain assets and operations, the safety and security of its workforce, and the interests of its broader stakeholders and the communities in which it operates. At this stage, there have been no direct impacts on Armour's operations or assets connected to these issues, other than the gas and hydraulic fracturing moratoriums imposed by the Victorian and Northern Territory Governments.

No financial impacts have been recorded in the current period by Armour in relation to these initiatives as:

- The Company's project equity interests in the state of Victoria are currently carried at a nil value, having been written down in an earlier period; and
- The Government of the Northern Territory has now lifted its moratorium and granting the Company an extension of time for it to complete its exploration activities, together with reductions in its financial commitments related thereto.

Armour is committed to making further progress in relation to climate change disclosure and reporting in future periods, as well as the continued monitoring and improvement of operational and site issues connected with the issues highlighted above.

COMPETENT PERSONS STATEMENT

TECHNICAL STATEMENT – HYDROCARBON RESERVES

The report 'Armour Energy Hydrocarbon Reserves, 01 January 2020', documents the Reserves Update based upon Armour's successful drilling and sales production from the Myall Creek 4A, Myall 5A and Horseshoe 4 wells in PL 511 and PL 227 (see Map 1). The estimated aggregated quantities of petroleum reserves to be recovered from existing wells and through future capital are listed in Table 1 above and exclude 5% production processing fuel and provisional flaring.

The independently verified 'Armour Energy Hydrocarbon Reserves, 01 January 2020' report details a high degree of confidence in the commercial producibility of Permian aged reservoirs previously discovered and produced in operated granted petroleum licenses 511 and 227 using, recent Armour drilled and hydraulically stimulated wells, 2D-3D seismic, historic and modern well data, reservoir pressure data, electric logs and rock properties from chip and 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, Origin Energy. 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 to the Roma to Brisbane Pipeline (Run 2) 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 gas.

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, hydraulic stimulation, workovers, recompletes and surface facility modifications to ramp up to and maintain a 30 TJ/day production profile for 15 years. 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 a social 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 and 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 to accelerate production, commingle the productive zones and extract volumes from tight gas zones. Wellbores will be cased and cemented with a -pressure wellhead completion. Petroleum will be recovered through 2-3/8" production tubing and gathered to field compression sites for delivery to the Kincora Gas Plant.

Wellbores will be designed to protect aquifers and deviated drilling may be used to lessen the overall impact to surface owners, environmental receptors, strategic cropping and to consolidate surface infrastructure. 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.

Directors' report continued
for the year ended 30 June 2020

COMPETENT PERSONS STATEMENT CONTINUED

TECHNICAL STATEMENT – CONTINGENT OIL RESOURCES

Armour Energy engaged the services Mr Teof Rodriguez, Director of TR&A, to provide independent expert review of reports on the operated Oil Resources associated within the Company's 100% WI petroleum licenses 14 and 22 and within the 90% WI petroleum license 30, in the Kincora Project on 4 February 2020.

The basis for confirming the existence of a significant quantity of potentially moveable hydrocarbons in the Early Jurassic and Middle Triassic aged reservoirs and the determination of a discovery is based upon stand-alone appraisal and appraisal pilot production from existing historic wells in and around the New Royal, Washpool-Wilga, Borah Creek, Kincora, Waratah and Riverslea Oil Fields. These oil pools have an aggregated cumulative oil production of 2.25 Mmbbl. Ongoing analysis of existing 2D and 3D data, well data and historic production will allow future new drill locations to be inventoried and new access negotiations have been completed to allow for the Early Jurassic and Middle Triassic aged reservoirs to be included in the Armour Energy Greater Kincora Field Development Plan, revised January 2020 and scheduled into the 2020-2025 drilling campaign.

At present the detailed petrophysical reservoir parameters, mapping of gross-rock-volume (GRV), historical production, rate-transit-analysis, well tests, core data, 2D and 3D seismic, structure maps and net sand isopaches using probabilistic distributions determined the net recoverable Contingent Oil Resources calculated for the report. Petroleum license commitments and new wellbores have been budgeted. The new wells are part of a 5-year appraisal and development plan to increase oil sales production in a staged approach to-up-to 350 barrels/day using new or existing oil facilities for separating and collection by ORI for sales.

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.

CONSENTS

The reserves information in this document is based on, and fairly represents, data and supporting documentation prepared by, or under the supervision, of Mr Teof Rodrigues. Mr Rodrigues' primary discipline is Reservoir Engineering and during his 40-year period in the Industry has had the opportunity to work in multidisciplined teams to appreciate the importance of understanding the process involved in moving the hydrocarbons from the reservoir to the reference sales point. As the Chief Reservoir Engineer for 6 years he had the Corporate Reserves Team reporting to him. In addition, he had the responsibility of endorsing all the Major Projects and the key Reserves and Resource estimates of the Company. He is a Director of TR&A and an experienced petroleum Reserves and resources estimator with 40 years relevant experience. He has adhered to the ASX Listing Rules Guidance Note 32. His qualifications and experience meet the requirements to act as a Competent Person to report petroleum reserves under PRMS (2018). The Resources information in this ASX announcement was issued with the prior written consent of Mr Rodrigues in the form and context in which it appears.

The reserves review was carried out 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 hydrocarbon exploration and 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 (June 2018).

UNDER PRMS

"Reserves" are those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability.

"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.

Directors' report continued
for the year ended 30 June 2020

FORWARD LOOKING STATEMENT

This document 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.

Auditor's independence declaration

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DECLARATION OF INDEPENDENCE BY R M SWABY TO THE DIRECTORS OF ARMOUR ENERGY LIMITED

As lead auditor for the audit of Armour Energy Limited for the year ended 30 June 2020, 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 year.

R M Swaby
Director

BDO Audit Pty Ltd

Brisbane, 30 September 2020

Financial report

Consolidated statement of profit or loss and other comprehensive income

		Consolidated	
Revenue	**Note**	**30 June 2020**	**30 June 2019**
Revenue from contracts with customers	7	21,103,928	27,819,335
Cost of goods sold		(19,484,314)	(19,018,113)
Gross profit		1,619,614	8,801,222
Other income		490,832	16,198
Interest revenue		127,546	192,524
Expenses			
General and administrative expenses		(3,346,582)	(6,174,435)
Exploration expenditure written off	17	(720,491)	(71,329)
Share based payments		(72,916)	(42,136)
Other expenses		–	(61,976)
Finance costs	24	(7,192,469)	(13,656,309)
Loss before income tax expense		**(9,094,466)**	**(10,996,241)**
Income tax expense	9	(476,310)	(687,507)
Loss after income tax expense for the year attributable to the owners of Armour Energy Limited		**(9,570,776)**	**(11,683,748)**
Other Comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Change in fair value of financial assets at fair value through other comprehensive income	19	(1,487,500)	(2,126,990)
Income tax on items that may be reclassified to profit or loss	9	446,252	638,097
Other Comprehensive income for the year, net of tax		(1,041,248)	(1,488,893)
Total Comprehensive income for the year attributable to the owners of Armour Energy Limited		**(10,612,024)**	**(13,172,641)**
		Cents	**Cents**
Basic loss per share	10	(1.7)	(2.4)
Diluted loss per share	10	(1.7)	(2.4)

Consolidated statement of financial position

Assets		Consolidated	
Current assets	**Note**	**30 June 2020**	**30 June 2019**
Cash and cash equivalents	11	3,245,703	9,225,176
Trade and other receivables	13	2,016,447	2,667,516
Inventories	14	2,587,580	1,960,822
Other current assets		867,860	522,734
		8,717,590	14,376,248
Assets held for sale	15	44,581	–
Total current assets		8,762,171	14,376,248
Cash and cash equivalents			
Trade and other receivables		224,636	–
Inventories	17	35,209,279	49,276,740
Other current assets	33	216,017	–
	18	58,333,384	42,344,331
Assets held for sale	19	9,196,611	10,516,785
Total current assets		35,119	38,125
Cash and cash equivalents		103,215,046	102,175,981
Total assets		**111,977,217**	**116,552,229**
Liabilities			
Current liabilities			
Trade and other payables	16	6,605,725	4,140,312
Lease liabilities	35	189,884	38,381
Employee benefits	36	401,071	309,040
Borrowings	22	11,713,940	1,203,125
Deferred consideration	21	1,000,000	1,000,000
Total current liabilities		19,910,620	6,690,858
Non-current liabilities			
Borrowings	23	43,122,579	57,415,243
Lease liabilities	35	33,247	28,786
Employee benefits	37	49,177	51,371
Provision for restoration and abandonment	20	6,688,065	6,688,065
Deferred consideration	21	–	919,143
Total non-current liabilities		49,893,068	65,102,608
Total liabilities		**69,803,688**	**71,793,466**
Net assets		**42,173,529**	**44,758,763**
Equity			
Issued Capital	27	114,310,816	106,538,828
Reserves	28	2,445,629	3,268,695
Accumulated Losses		(74,582,916)	(65,048,760)
Total equity		**42,173,529**	**44,758,763**

Financial report continued

Consolidated statement of changes in equity

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2018	96,367,882	7,474,762	(58,996,813)	44,845,831
Loss after income tax expense for the year	–	–	(11,683,748)	(11,683,748)
Other Comprehensive income for the year, net of tax	–	(1,488,893)	–	(1,488,893)
Total Comprehensive income for the year	–	(1,488,893)	(11,683,748)	(13,172,641)
Transactions with owners in their capacity as owners:				
Value of conversion rights – convertible notes, net of issue costs	–	(20,521)	–	(20,521)
Value of conversion rights – Tribeca Loan facility, net of issue costs	–	2,893,012	–	2,893,012
Transfer of conversion rights on redemption of convertible notes	–	(5,381,801)	5,381,801	–
Convertible notes converted into shares	154,126	–	–	154,126
Shares issued during the year	10,265,776	–	–	10,265,776
Share issue costs	(298,366)	–	–	(298,366)
Recognition of deferred tax assets relating to share issue costs	49,410	–	–	49,410
Reserve transfer – expired share-based payments	–	(250,000)	250,000	–
Share–based payments	–	42,136	–	42,136
Balance at 30 June 2019	**106,538,828**	**3,268,695**	**(65,048,760)**	**44,758,763**

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2019	106,538,828	3,268,695	(65,048,760)	44,758,763
Adjustment for change in accounting policy	–	–	36,620	36,620
Balance at 1 July 2019 – restated	106,538,828	3,268,695	(65,012,140)	44,795,383
Loss after income tax expense for the year	–	–	(9,570,776)	(9,570,776)
Other Comprehensive income for the year, net of tax	–	(1,041,248)	–	(1,041,248)
Total Comprehensive income for the year	–	(1,041,248)	(9,570,776)	(10,612,024)
Transactions with owners in their capacity as owners:				
Shares issued during the year	8,338,854	–	–	8,338,854
Share issue costs	(708,099)	212,800	–	(495,299)
Recognition of deferred tax assets relating to share issue costs	73,699	–	–	73,699
Share-based payments	67,534	5,382	–	72,916
Balance at 30 June 2020	114,310,816	2,445,629	(74,582,916)	42,173,529

Consolidated statement of cash flows

	Note	Consolidated 30 June 2020	30 June 2019
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		24,101,194	30,029,497
Payments to suppliers and employees (inclusive of GST)		(17,702,339)	(28,593,632)
Payments for production		(3,280,452)	(2,635,131)
Interest received		122,597	203,791
Interest Paid		(6,571,932)	(6,759,126)
Government grant		283,131	8,884
Net cash used in operating activities	12	**(3,047,801)**	**(7,745,717)**
Cash flows from investing activities			
Payment for financial assets		(450,000)	-
Receipt for sale of exploration asset		500,000	-
Refund/(payments) for security deposits		257,018	(214,079)
Payments for property, plant, and equipment		-	(22,187)
Payments for oil and gas assets		(22,006,044)	(16,713,985)
Payments for exploration and evaluation		(2,497,128)	(169,367)
Payments for intangible assets		(224,636)	-
Grant funds received in relation to oil and gas assets		2,596,054	3,431,165
Farm-in Agreement funds received for exploration assets		15,000,000	-
Net cash used in investing activities		**(6,824,736)**	**(13,688,453)**
Cash flows from financing activities			
Proceeds from issue of shares	27	8,433,734	10,138,450
Proceeds from issue of corporate bond	23	-	55,000,000
Proceeds from borrowings	23	-	6,759,200
Repayment of borrowings	23	(3,850,000)	(43,388,436)
Transaction costs on the issue of shares and notes		(690,670)	(2,954,495)
Net cash from/ (used in) financing activities		**3,893,064**	**25,554,719**
Net increase/(decrease) in cash and cash equivalents		(5,979,473)	4,120,549
Cash and cash equivalents at the beginning of the financial year		9,225,176	5,104,627
Cash and cash equivalents at the end of the financial year	11	**3,245,703**	**9,225,176**

Financial report continued
Notes to the consolidated financial statements

NOTE 1. GENERAL INFORMATION

Armour Energy Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 27, 111 Eagle Street, Brisbane QLD 4000.

The financial statements cover Armour Energy Limited as a Group consisting of Armour Energy Limited and the entities it controlled at the end of, or during, the reporting period. The financial statements are presented in Australian dollars, which is Armour Energy Limited's functional and presentation currency.

The Group is principally engaged in the exploration, development and production of oil and gas resources in Australia.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 30 September 2020. The Directors have the power to amend and reissue the financial statements.

NOTE 2. STATEMENT OF COMPLIANCE

The Group's Financial Statements as at and for the year ended 30 June 2020:

1. is a general-purpose financial report.
2. is prepared on a going concern basis (discussed further in Note 4).
3. has been prepared in accordance with the Corporations Act 2001.
4. has been prepared in accordance with accounting standards and interpretations in this report, which encompass the:
    a) Australian Accounting Standards ("AASBs") and other authoritative pronouncements of the Australian Accounting Standards Board; and International Financial Reporting Standards and Interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB").
    b) has been prepared under the historical cost convention, except for, the revaluation of financial assets at fair value through other comprehensive income. The methods used to measure fair values are discussed further in note 25.
    c) is presented in Australian Dollars ("AUD"), which is both the Company's and the Group's presentation currency.
    d) includes significant accounting policies in the notes to the Financial Statements that summarise the recognition and measurement basis used and are relevant to the understanding of the Financial Statements.
    e) presents reclassified comparative information where required for consistency with the current year's presentation.
    f) adopts all new and amended standards and interpretations issued by the relevant bodies (listed above), that are mandatory for application beginning on or after 1 July 2019. None had a significant impact on the Financial Statements.
    g) has not early adopted any standards and interpretations that have been issued or amended but are not yet effective.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the relevant notes.

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 31.

ROUNDING OF AMOUNTS

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Armour Energy Limited ('Company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Armour Energy Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances, and unrealised gains on transactions between entities in the Group 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 Group.

CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Financial report continued

Notes to the consolidated financial statements continued

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

NON-CURRENT ASSETS OR DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

JOINT OPERATIONS

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group has entered into joint arrangements with various parties for interest in exploration tenements as disclosed in note 30. Exploration expenditures incurred in relation to these joint operations have been capitalised in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At each reporting date, Management 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 assets carrying value. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

ACCOUNTING POLICY FOR CONVERTIBLE NOTES

Financial liabilities carried at amortised cost are initially measured at fair value including transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

The Group's convertible notes are treated as non-derivative financial liability carried at amortised cost. On initial 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 subsequent remeasured. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the notes.

Details on how the fair value of financial instruments is determined are disclosed in note 27.

KEY JUDGEMENT – CONVERTIBLE NOTES

The Group's convertible notes were 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.

In the prior year, the convertible notes were 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.

GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the company will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Financial report continued

Notes to the consolidated financial statements continued

NOTE 4. 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.

The Group has achieved relatively stable production during the last 12 months, resulting in $21,103,928 of revenue during the year. The group is forecasting to significantly increase revenue over the coming 12 months due to implementation of a multi-stage field development plan designed to exploit the Group's existing flowing wells.

For the year ended 30 June 2020, the Group generated a consolidated net loss before tax of $9,089,084 and incurred operating cash inflows of $2,683,032. As at 30 June 2020, the Group had cash and cash equivalents of $3,245,703, net current assets of $565,491 and net assets of $42,173,529.

Whilst there is growing confidence in the performance of the Kincora Gas Plant and the future ramp up of production from the Kincora Gas Project, at the date of signing these accounts the above conditions give rise to a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

COVID-19 RESPONSE

Cost Reductions

Armour is taking steps to reduce corporate costs by a minimum of 35%. This includes all head office staff reducing remuneration by 20% and unfortunately includes a number of redundancies. The Executive Chairman and Non-Executive Directors have also reduced their fees by 20% from April 2020. Future consideration will be given to the partial payment of Director fees in shares, subject to any necessary shareholder and regulatory approvals. In addition, Armour is seeking to reduce to the full extent possible all other overheads including contractor hours and rates, administration costs and office rent. These remuneration reductions are anticipated to remain in place for at least a six-month period and will be reviewed and updated as and when required.

Armour is also aiming to reduce operating expenditure at its Kincora Gas Project by approximately 20%, while maintaining its ability to reliably maintain production in a safe and environmentally compliant manner. This will include revised staff rostering and schedules but will unfortunately include some redundancies.

Capital Expenditure 2020

The capital raising program as originally announced was aiming to raise approximately $10m via a series of share placements (to raise approximately $5.5m) and an underwritten Accelerated Non-Renounceable Entitlement Offer (to raise approximately $4.5m). Shareholder approval was necessary for the settlement of some of the placement amounts, and this has now been received as a result of the EGM held on 18 September 2020.

Due to significant demand from third-party investors in relation to the Company's fund raising, the Board has been able to upsize the conditional placement component to a total of approximately $7m subject to receipt of any necessary further shareholder approvals, which will give the capital raising program a combined total of approximately $15m.

The additional equity raised through the upsized conditional placement enables the Company to accelerate several key work programs outlined in the investor presentation released on the ASX on 21 August 2020. The Company intends to use the funds raised from the upsized placement specifically to fund the following work programs:

- Surat Basin Production Enhancement – the six-well stimulation program which commenced on 10 September 2020 with the commencement of works at the Horseshoe-4 well (see ASX release of 10 September) including accelerating the timing of the portion of the program scheduled for the June 2021 quarter;
- Cooper Basin Exploration – Accelerating the Cooper Basin exploration program aimed at high grading the existing 2D/3D seismic controlled leads and prospects portfolio to generate 3 to 5 high-quality drill ready 3D controlled prospects by FYE 2021; and
- Newstead Gas Storage Restart – Undertake minor above ground facility works to restart the Newstead Gas Storage Project including overhaul of the sales gas injection compression equipment and installation of a new bi-directional valves at the pipeline interconnection facilities in the Wallumbilla Gas Hub.

In addition to these programs the additional upsized placement funds will also be used for general working capital purposes and provide some flexibility in treasury management. Together with existing working capital, the upsized placement funds further strengthens the Company's balance sheet and puts the Company in a position to significantly increase work program activity aimed at increasing production and cash flow in the near term and developing a pipeline of exploration projects to deliver reserves and production growth across core assets.

Notwithstanding the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis after having regard to the above and the following matters:

1. As announced on 20 August 2020 the Company had completed non-core asset sales of $10 million.
2. A total of $15 million has been raised from upfront placement, institutional entitlement offer, retail entitlement offer and conditional placement with $10.6 million being raised post year end.
3. The cash generating ability of the Kincora Project will continue to increase as the Group's development plans move ahead and into Phase 3 and 4 of its growth strategies.
4. The implementation of the long-term field development plan will require capital investment, and the Group has the ability to manage capital and liquidity by taking some or all of the following actions:
   a) 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.
   b) Reducing its level of capital expenditure through farm-outs and/or joint ventures.
   c) Managing its working capital expenditure.
   d) Applying for eligible Research and Development tax refund receipts, and other Government incentives; and
   e) Disposing of non-core assets.

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 adjustment relating to the recoverability and reclassification of the recorded assets 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.

Financial report continued
Notes to the consolidated financial statements continued

NOTE 5. USE OF ESTIMATES AND JUDGEMENTS

The Group has identified a number of critical accounting policies under which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions. This may materially affect financial results and the carrying amount of assets and liabilities to be reported in the next and future periods. These estimates and underlying assumptions are reviewed on an ongoing basis.

Additional information relating to these critical accounting policies is embedded within the following notes:

9	Deferred tax assets
17	Exploration and evaluation assets
18	Oil and Gas assets
18	Government Grants
20	Provision for restoration and abandonment

There are no other critical accounting judgements, estimates and assumptions that are likely to affect the current or future financial years.

NOTE 6. OPERATING SEGMENTS

IDENTIFICATION OF REPORTABLE 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 "CODM") 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, Northern Territory, and Victoria, Australia.

Operating segments are determined on the basis of financial information reported to the Board.

For the year ended 30 June 2020, Management identified the Group as having two main reporting segments, being Exploration, Evaluation and Appraisal activities (EEA), and the Production and Development of petroleum products (oil, gas, LPG and condensate) in the Surat Basin, Queensland (Surat), and will report on these segments accordingly.

The Corporate and other segment represents administration and other overheads that are not allocated to the operating segments.

The CODM reviews EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) on a monthly basis. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

TYPES OF PRODUCTS AND SERVICES

The principal products and services of each of these operating segments are as follows:

EEA

The Group does not produce any products or services from this operating segment; it involves expenditure to explore and evaluate potential future economic reserves and resources.

Surat

The Group produces petroleum products from its Kincora operating plant in the Surat Basin, which includes a mix of Gas, LPG, Oil and Condensate and sells these to LNG and Domestic customers.

Intersegment transactions

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

Intersegment receivables, payables, and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Intersegment Assets

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

Intersegment 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.

Major customers

During the year ended 30 June 2020 approximately 58% (2019: 69%) of the Group's external revenue was derived from sales to one Australian based customer.

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.

Financial report continued

Notes to the consolidated financial statements continued

NOTE 6. OPERATING SEGMENTS CONTINUED

OPERATING SEGMENT INFORMATION

Consolidated – 30 June 2020

	EEA $	Surat $	Corporate $	Total $
Revenue				
Revenue from contracts with customers	–	21,103,928	–	21,103,928
Total segment revenue	–	21,103,928	–	21,103,928
EBITDA	191,633	2,379,789	(900,644)	1,670,778
Depreciation and amortisation	–	(2,949,842)	(58,198)	(3,008,040)
Impairment of assets	(720,491)	–	–	(720,491)
Gain on disposal of assets	–	28,210	–	28,210
Interest revenue	–	–	127,546	127,546
Finance costs	–	(1,942,301)	(5,250,168)	(7,192,469)
Loss before income tax expense	(528,858)	(2,484,144)	(6,081,464)	(9,094,466)
Income tax expense				(476,310)
Loss after income tax expense				(9,570,776)
Assets				
Segment assets	35,209,278	73,691,929	–	108,901,207
Unallocated assets:				
Unallocated assets				3,076,010
Total assets				111,977,217
Liabilities				
Segment liabilities	667	18,446,555	–	18,447,222
Unallocated liabilities:				
Unallocated liabilities				51,356,466
Total liabilities				69,803,688

Consolidated – 30 June 2019

	EEA $	Surat $	Corporate $	Total $
Revenue				
Revenue from contracts with customers	–	27,819,335	–	27,819,335
Total segment revenue	–	27,819,335	–	27,819,335
EBITDA	(2,656)	9,475,472	(5,736,336)	3,736,480
Depreciation and amortisation	–	(1,116,869)	(18,763)	(1,135,632)
Impairment of assets	(71,329)	–	–	(71,329)
Loss on disposal of assets	–	(61,976)	–	(61,976)
Interest revenue	–	–	192,524	192,524
Finance costs	–	(1,598,349)	(12,057,959)	(13,656,308)
Loss before income tax expense	(73,985)	6,698,278	(17,620,534)	(10,996,241)
Income tax expense				(687,507)
Loss after income tax expense				(11,683,748)
Assets				
Segment assets	49,276,740	57,549,813	–	106,826,553
Unallocated assets:				
Unallocated assets				9,725,676
Total assets				116,552,229
Liabilities				
Segment liabilities	17,091	16,332,534	–	16,349,625
Unallocated liabilities:				
Unallocated liabilities				55,443,841
Total liabilities				71,793,466

ACCOUNTING POLICY FOR OPERATING SEGMENTS

An operating segment is a component of the Group 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 makers ("CODM") 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.

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the CODM.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 Operating Segments 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.

Financial report continued

Notes to the consolidated financial statements continued

NOTE 7. REVENUE FROM CONTRACTS WITH CUSTOMERS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Revenue		
Revenue from contracts with customers	21,103,928	27,819,335

DISAGGREGATION OF REVENUE

The Group generated revenue from the sale of petroleum products, which are derived from the same production process, have materially similar performance obligations and are for goods that have been transferred at a point in time. Therefore, no disaggregation of revenue by product line or recognition method has been presented.

	Consolidated	
	30 June 2020 $	30 June 2019 $
Revenue from contracts with customers:		
Gas	15,386,230	19,807,216
LPG	2,068,339	2,643,491
Oil and Condensate	3,649,359	5,368,628
	21,103,928	27,819,335

ACCOUNTING POLICY FOR REVENUE

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Revenue recognition with respect to the Group's specific business activities are as follows:

Sale of goods

The Group satisfies its performance obligation at the point in time when control of oil and gas products has transferred to the customer. Specifically:

- for oil and LPG sales this is when the products are collected by truck at the production site; and
- for gas sales this is at the point of the custody transfer meter at Run 2 of the Roma to Brisbane Pipeline (RBP).

Revenue on sale of goods is variable depending on physical production amounts and is due by the customer within 30 days from the end of the invoiced month.

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.

Financial report continued

Notes to the consolidated financial statements continued

NOTE 8. EXPENSES

	Consolidated	
	30 June 2020 $	30 June 2019 $
Loss before income tax includes the following specific expenses:		
Cost of sales		
Operating expenses	19,484,314	19,018,113
Depreciation and Amortisation		
Plant and equipment	341	3,042
Office equipment	15,682	15,721
Oil and Gas assets – classified as cost of goods sold	2,743,408	1,116,869
Amortisation of intangibles	42,175	–
Rights of Use assets	206,435	–
Total depreciation	3,008,041	1,135,632
Impairment		
Exploration and evaluation	720,491	71,329
Net foreign exchange (gains) / loss		
Net foreign exchange (gains) / loss	39,844	(54,702)
Superannuation expense (*)		
Defined contribution superannuation expense	769,832	599,120
Share-based payments expense		
Share-based payments expense	72,916	42,136
Employee benefits expense excluding superannuation		
Employee benefits expense excluding superannuation	8,726,997	7,707,593

NOTE 9. INCOME TAX

(A) COMPONENT OF INCOME TAX EXPENSE (BENEFIT)

	Consolidated	
	30 June 2020 $	30 June 2019 $
Income tax expense (benefit) is made up of:		
Deferred tax	476,310	687,507
Aggregate income tax expense	476,310	687,507
Income tax charged in equity is made up of:		
Deferred tax	30,057	49,410
Aggregate income tax charged in equity	30,057	49,410
The prima facie tax on profit / (loss) before income tax is reconciled to the income tax expense as follows:		
Loss before income tax expense	(9,094,466)	(10,996,241)
Tax at the statutory tax rate of 30%	(2,728,340)	(3,298,872)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	21,875	12,641
Expenses not deductible for tax purposes	–	351
	(2,706,465)	(3,285,880)
Current year tax losses not recognised	3,788,046	3,102,461
Prior year over (under)	(605,271)	147,659
Deferred Tax Asset utilised following R&D cash back	–	723,267
Income tax expense	476,310	687,507

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NOTE 8. INCOME TAX CONTINUED
(B) RECONCILIATION OF NET DEFERRED TAX

Reconciliation of net deferred tax

	Opening balance 1 July 2019	Net charged to income	Net charged to other comprehensive income	Net charged to equity	Closing Balance 30 June 2020
Deferred tax asset					
Carried forward tax losses	8,505,088	(5,560,815)	–	–	2,944,273
Accruals/provisions	205,884	116,569	–	–	322,453
Property, Plant & Equipment (Armour)	12,572	–	–	–	12,572
Capital raising costs through P&L	108,998	(37,275)	–	–	71,723
Capital raising costs in equity	88,307	(40,882)	–	73,699	121,124
Provision for rehabilitation (Surat Basin)	1,378,837	–	–	–	1,378,837
Available for sale financial assets	781,927	–	446,252	–	1,228,179
Amortisation of Convertible Notes	1,361,531	–	–	–	1,361,531
Amortisation of Tribeca Facility	264,504	298,062	–	–	562,566
Lease Liabilities	–	7,664	–	50,639	58,303
	12,707,648	(5,216,677)	446,252	124,338	8,061,561
Deferred tax liability					
Exploration & Evaluation assets	(13,029,324)	4,380,747	–	–	(8,648,577)
Oil & Gas assets	321,677	332,453	–	–	654,130
Other	–	27,166	–	(94,280)	(67,114)
Potential benefit at 30%	(12,707,647)	4,740,366	–	(94,280)	(8,061,561)
Net deferred tax	–	(476,310)	446,252	30,058	–
Deferred tax assets not recognised					
Unused tax losses	39,831,901	13,485,952	–	–	53,317,853
Tax benefit at 30%	11,949,570	4,045,786	–	–	15,995,356

Prior year	Opening balance 1 July 2018	Net charged to income	Net charged to other comprehensive income	Net charged to equity	Closing Balance 30 June 2019
Deferred tax asset					
Carried forward losses	12,196,242	(3,691,154)	–	–	8,505,088
Accruals/ Provisions	145,081	60,803	–	–	205,884
Property, Plant & Equipment (Armour)	12,572	–	–	–	12,572
Capital raising costs through P&L	203,757	(94,760)	–	–	108,997
Capital raising costs in equity	65,523	(26,626)	–	49,410	88,307
Provision for rehabilitation	1,378,837	–	–	–	1,378,837
Financial assets at fair value through other comprehensive income	143,830	–	638,097	–	781,927
Amortisation of Convertible Notes	834,970	526,561	–	–	1,361,531
Amortisation of Tribeca Facility	–	264,504	–	–	264,504
Potential benefit at 30%	14,980,812	(2,960,672)	638,097	49,410	12,707,647
Deferred tax liability					
Exploration & Evaluation assets	(13,551,293)	521,969	–	–	(13,029,324)
Oil & Gas assets	(1,429,519)	1,751,196	–	–	321,677
Potential benefit at 30%	(14,980,812)	2,273,165	–	–	(12,707,647)
Net deferred tax	–	(687,507)	638,097	49,410	–
Deferred tax assets not recognised					
Unused tax losses	30,127,464	9,704,437	–	–	39,831,901
Tax benefit at 30%	9,038,239	2,911,331	–	–	11,949,570

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 2020 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.

(C) PETROLEUM RESOURCES 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 was imposed on a project-by-project basis. A bill was introduced in the Australian Parliament on 13 February 2019 to reform the Petroleum Rent Resource Tax (PRRT) measures in Australia. Schedule 2 of the reform bill relates to onshore petroleum projects, and from 1 July 2019 PRRT ceased to apply. The reform subsequently received Royal Assent and was enacted on 5 April 2019 without any amendments.

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NOTE 9. INCOME TAX CONTINUED

KEY JUDGEMENT – 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.

ACCOUNTING POLICY FOR INCOME TAX

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Armour Energy Limited (the 'head entity') and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

ACCOUNTING POLICY FOR GOODS AND SERVICES TAX ('GST') AND OTHER SIMILAR TAXES

Revenues, expenses, and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the 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 tax authority is included in other receivables or other payables in the 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 tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

NOTE 10. EARNINGS PER SHARE

Options are not considered dilutive as they are currently out of the money. Options may become dilutive in the future.

	Consolidated	
	30 June 2020 $	**30 June 2019 $**
Loss after income tax attributable to the owners of Armour Energy Limited	(9,570,776)	(11,683,748)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic loss per share	573,421,237	487,281,207
Weighted average number of ordinary shares used in calculating diluted loss per share	573,421,237	487,281,207
	Cents	**Cents**
Basic loss per share	(1.7)	(2.4)
Diluted loss per share	(1.7)	(2.4)

Options and performance shares are not considered dilutive due to losses made by the Group.

Options, performance shares and conversion of convertible notes into equity may become dilutive in the future.

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Notes to the consolidated financial statements continued

NOTE 9. INCOME TAX CONTINUED

ACCOUNTING POLICY FOR EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Armour Energy Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

NOTE 11. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Cash on hand	–	31,019
Cash at bank and in hand	3,242,546	9,076,454
Other cash and cash equivalents	3,157	117,703
	3,245,703	9,225,176

Other cash and cash equivalents include bank accounts held by the Group as operator in joint operations in tenements.

ACCOUNTING POLICY FOR CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTE 12. CASH FLOW INFORMATION

(A) RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES

	Consolidated	
	30 June 2020 $	30 June 2019 $
Loss after income tax expense for the year	(9,570,776)	(11,683,748)
Adjustments for:		
Depreciation and amortisation	3,008,041	1,135,632
Net loss/(gain) on disposal of property, plant and equipment	(28,218)	61,976
Share-based payments	72,916	42,136
Write off of exploration and evaluation expenditure	720,491	71,329
Interest expense on borrowing facilities	(1,203,125)	(370,079)
Amortisation of borrowing facilities and issue costs	1,513,201	3,417,558
Unwinding of the discount on deferred consideration	80,857	109,902
Inventory adjustment	(220,196)	-
Expenses classified as financing activities	-	102,966
Cost of convertible note early redemption	-	3,760,165
Change in operating assets and liabilities (*):		
(Increase) / decrease in other current assets	(345,126)	(374,030)
Increase / (decrease) in trade and other payables	2,557,906	(2,640,558)
(Increase) / decrease in trade and other receivables	516,676	(380,707)
(Increase) / decrease in deferred tax assets	476,310	687,507
(Increase) / decrease in inventories	(626,758)	(648,881)
Increase / (decrease) in provisions	-	(1,073,505)
Net cash used in operating activities	(3,047,801)	(7,745,717)

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

Equity settled share-based payment transactions are disclosed in Note 28. Apart from those in Note 28, there are no other non-cash financing and investing activities to disclose.

Financial report continued

Notes to the consolidated financial statements continued

NOTE 12. CASH FLOW INFORMATION CONTINUED

(B) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Consolidated	Convertible note liabilities $	Convertible note coupons $	Tribeca Loan $	Corporate Bonds $	Total $
Balance at 1 July 2018	37,511,879	1,543,466	–	–	39,055,345
Net cash from/ (used in) financing activities	(43,388,436)	(1,543,466)	6,759,200	55,000,000	16,827,298
Transaction costs	–	–	(137,219)	(2,350,866)	(2,488,085)
Equity settled	(154,126)	–	(2,893,012)	–	(3,047,138)
Amortisation	2,270,518	–	919,597	117,543	3,307,658
Cost of convertible note early redemptions	3,760,165	–	–	–	3,760,165
Balance at 30 June 2019	–	–	4,648,566	52,766,677	57,415,243
Net cash used in financing activities	–	–	–	(3,850,000)	(3,850,000)
Amortisation	–	–	1,015,374	255,902	1,271,276
Balance at 30 June 2020	–	–	5,663,940	49,172,579	54,836,519

NOTE 13. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 30 June 2020 $	30 June 2019 $
Trade receivables	1,734,337	2,698,854
Cash calls from (to) JV parties	97,978	(30,676)
Cash call receivable – Lakes Oil NL	61,132	–
	1,893,447	2,668,178
Other receivables	123,000	(3,432)
Withholding tax receivable	–	2,770
	2,016,447	2,667,516

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The Group has not recognised any expense in profit or loss in respect of the expected credit losses for the year ended 30 June 2020 (30 June 2019: Nil). Based on the historical recovery of receivables, the small number of customers and customer payment obligations per gas sales agreements, the historical loss rates are adjusted for current and forward looking information on economic factors affecting the Group's customers, including the COVID-19 pandemic. As such the company considers that no allowance for expected credit losses is appropriate for the Group.

ACCOUNTING POLICY FOR TRADE AND OTHER RECEIVABLES

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30-60 days.

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.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

As at 30 June 2020, included in trade receivables is one significant debtor accounting for approximately 57% (2019: 70%) of the total trade receivables.

NOTE 14. CURRENT ASSETS – INVENTORIES

	Consolidated 30 June 2020 $	30 June 2019 $
Finished goods – at cost	364,834	523,401
Stock on hand – at cost	2,222,746	1,437,421
	2,587,580	1,960,822

ACCOUNTING POLICY FOR INVENTORIES

Oil and Gas inventory is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of Oil and Gas inventory includes direct materials, direct labour, transportation costs and variable and fixed overhead costs related to production activities.

Consumable inventory on hand is stated at the lower of cost and net realisable value. Net realisable value is the estimated recoverable price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of consumable inventory comprises purchase and delivery costs, net of rebates and discounts received or receivable.

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Notes to the consolidated financial statements continued

NOTE 15. CURRENT ASSETS – NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	Consolidated	
	30 June 2020 $	30 June 2019 $
10% Interest in Murrungama PL1084	44,581	–

The Group has entered into an agreement with Australia Pacific LNG to sell them a 10% stake in Petroleum Lease 1084 (Murrungama). A $0.5 million deposit was received by the Group in June 2020. This deposit is refundable to Australia Pacific LNG should completion not occur within 6 months. The deposit is sitting in Other payables (see Note 16).

NOTE 16. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	30 June 2020 $	30 June 2019 $
Trade payables	3,547,686	2,613,838
Other payables	600,656	–
Other tax liabilities	24,539	33,827
GST payable	182,775	114,576
Accrued expenses	2,250,069	1,378,071
	6,605,725	4,140,312

Refer to note 28 for further information on financial risk management.

ACCOUNTING POLICY FOR TRADE AND OTHER PAYABLES

These amounts represent financial liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid.

Financial liabilities are carried at amortised cost and are initially measured at fair value including transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Details on how the fair value of financial instruments is determined are disclosed in note 27.

Trade payables are non-interest bearing and are generally on 30-60 days terms. Due to their short-term nature trade and other payables are not discounted.

NOTE 17. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Exploration and evaluation assets	42,720,194	56,067,164
Less: Accumulated impairment	(7,510,915)	(6,790,424)
	35,209,279	49,276,740

	Consolidated	
	30 June 2020 $	30 June 2019 $
Movements in carrying amounts		
Balance at the beginning of the year	49,276,740	48,903,126
Additions	2,270,311	802,021
Government grants relating to Exploration and Evaluation assets	(617,281)	(311,925)
Farm-in agreement proceeds*	(15,000,000)	–
Exploration expenditure written off	–	(71,329)
Provision for impairment	(720,491)	(45,153)
	35,209,279	49,276,740

	Consolidated	
	30 June 2020 $	30 June 2019 $
Movements in the provision for impairment amounts		
Balance at the beginning of the year	(6,790,424)	(6,745,271)
Provisions raised	(720,491)	(45,153)
	(7,510,915)	(6,790,424)

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Notes to the consolidated financial statements continued

NOTE 17. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS CONTINUED

In December 2019, a farmin agreement was executed between Armour and Santos QNT Limited (Santos) for Armour's South Nicholson Basin tenements. Key points below:

- An initial cash payment of $15 million, for the transfer of a 70% interest and operatorship of ATP1087 to Santos.
- Under the farmin agreement, Santos has the right to earn a 70% interest in Armour's North Queensland tenements, being ATP1087 (granted), and ATP1107, ATP1192 and ATP1193 (applications), and the Northern Territory tenements EP172 and EP177, both of which are also in the application phase;
- Subsequent to year-end, the Company entered into an agreement with Santos to amend the South Nicholson Basin farmin agreement, resulting in an immediate cash payment of $6 million, received in August 2020, as an acceleration of future contingent permit transfer payments.

Subject to the satisfaction or waiver of certain conditions, Santos will free carry 100% of Armour's share of expenditure for the various work programs for all of the farmin permits up to a Total Capped Amount of $64.9 million (inclusive of the A$12.5 million work program associated with ATP1087). However, Santos may exercise its withdrawal rights which will reduce the total capped amount.

ACCOUNTING POLICY FOR FARMIN ARRANGEMENTS

Armour does not record any expenditure made by the farmee in its account. It also does not recognise any gain or loss on its exploration and evaluation farmin arrangements but reallocates the costs previously capitalised in relation to the whole interest as relating to the interests held. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by Armour as a gain on disposal.

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 and was then fully impaired in the year ended 30 June 2019.

As part of the annual review of the Ripple Resources interest, it was determined that it was appropriate for an impairment to be recognised in relation to the Exploration and Evaluation assets as the carrying amount of the Group's interest exceeded what is expected to be its recoverable amount. As such, an impairment of $720,491 was written off during the year ended 30 June 2020.

KEY JUDGEMENTS – CARRYING VALUE OF EXPLORATION AND 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 2020, 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".

ACCOUNTING POLICY FOR EXPLORATION AND EVALUATION ASSETS

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 transferred to oil and gas assets and amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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Notes to the consolidated financial statements continued

NOTE 18. NON-CURRENT ASSETS – OIL AND GAS ASSETS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Oil & gas assets – at cost	74,394,404	53,072,117
Less: Accumulated amortisation	(5,616,315)	(2,872,907)
	68,778,089	50,199,210
Less: R&D grants relating to Oil & gas assets	(4,388,589)	(2,416,043)
Less: GAP grants relating to Oil & gas assets	(6,056,116)	(5,438,836)
	(10,444,705)	(7,854,879)
	58,333,384	42,344,331

	Consolidated	
	30 June 2020 $	30 June 2019 $
Movements in carrying amounts		
Balance at the beginning of the year	42,344,331	30,987,611
Additions	21,322,289	15,666,066
Disposals	–	(73,237)
Depreciation charge	(2,743,408)	(1,116,869)
Government Grants relating to Oil and Gas Assets	(2,589,828)	(3,119,240)
	58,333,384	42,344,331

ACCOUNTING POLICY FOR OIL AND GAS ASSETS

Capitalised oil and gas assets are development costs and expenditures incurred to develop new wells; to define further moveable hydrocarbons in existing tenement areas; to expand the capacity of the project and to maintain production. Development costs also includes costs transferred from the exploration and evaluation phase once production commences in the area of interest.

Amortisation of oil and gas assets is computed by the units of production basis over the estimated proved and probable reserves. Proved and probable reserves reflect estimated quantities of economically recoverable reserves which can be recovered in the future from known mineral deposits. These reserves are amortised from the date on which production commences. The amortisation is calculated from recoverable proven and probable reserves and a predetermined percentage of the recoverable measured, indicated, and inferred resource. This percentage is reviewed annually.

Restoration costs expected to be incurred are provided for as part of development phase that give rise to the need for restoration. These costs are amortised along with other capitalised oil and gas expenditures as described above.

KEY JUDGEMENT – OIL AND GAS ASSETS

The Group assesses impairment of oil and gas assets 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 JUDGEMENT – GOVERNMENT GRANTS

The Group was a successful applicant under the Federal Government Gas Acceleration Program (GAP), which is designed to provide businesses with funding grants to accelerate the responsible development of onshore natural gas for domestic gas consumers. The GAP grant will enable the Group to accelerate development of its Kincora Project reserves by accelerating the delivery of 3 production wells in the 2018/2019 drilling program. The Group received the first tranche of funding in June 2018 and the program finished in October 2019.

AASB 120 – Accounting for Government Grants and Disclosure of Government Assistance defines grants related to assets as government grants whose primary condition is that an entity qualifying for them should purchase, construct, or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held. In accordance with AASB 120, Management has determined that it is appropriate to deduct any grant monies received from the carrying amount of the asset, which is accounted for as an exploration and evaluation asset where it meets the relevant recognition criteria.

NOTE 19. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Financial assets at fair value through other comprehensive income	4,702,000	4,252,000
Less: cumulative fair value movement	(3,614,490)	(2,126,990)
	1,087,510	2,125,010
Financial assurances	6,778,007	6,988,181
Security deposits	1,331,094	1,403,594
	9,196,611	10,516,785

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NOTE 19. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS CONTINUED

	Consolidated	
	30 June 2020 $	30 June 2019 $
Movements in financial assets at fair value through Other Comprehensive Income		
Opening balance at 1 July	2,125,010	4,252,000
Additions	450,000	–
Fair Value adjustments through Other Comprehensive Income	(1,487,500)	(2,126,990)
	1,087,510	2,125,010

Financial assets at fair value through other comprehensive income comprise investments in the ordinary capital of Lakes Oil NL.

The fair values of financial assets approximate their carrying amounts principally due to the fact that they are measured and recognised at fair value. Level 3 inputs, being unobservable inputs have been used in determining the fair value of the LKO Investment. The fair value was based on an external valuation report that determined the implied equity value of the recent convertible notes issued by LKO. Level 3 inputs were used as the basis of the fair value as LKO has currently been suspended from the active market.

Financial assurances are cash backed bank guarantees.

ACCOUNTING POLICY FOR OTHER FINANCIAL ASSETS

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.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Financial assets with embedded derivatives are considered in their entirety when determining whether cash flows are solely payment of principal and interest. Refer to Note 27 detail of the Group's fair value accounting policy.

Security deposits and financial assurances are measured at amortised cost.

NOTE 20. NON-CURRENT LIABILITIES – PROVISION FOR RESTORATION AND ABANDONMENT

	Consolidated	
	30 June 2020 $	30 June 2019 $
Restoration and abandonment	6,688,065	6,688,065

KEY JUDGEMENT – 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 – Provisions, Contingent Liabilities and Contingent Assets. The restoration and abandonment liability are valued by an independent expert in accordance with legislative requirements and is reviewed at each reporting period. For the provision recognised at 30 June 2020, the facts and circumstances do not suggest that the carrying amount of the provision has changed.

ACCOUNTING POLICY FOR RESTORATION PROVISIONS

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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.

Provisions for rehabilitation and abandonment of Oil and Gas assets are measured at the cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of rehabilitation activities includes the removal of facilities, abandonment of wells and restoration of affected areas. Typically, the obligation arises when the asset is installed at the production location.

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 20 years.

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NOTE 21. DEFERRED CONSIDERATION

	Consolidated	
	30 June 2020 $	30 June 2019 $
Current		
Deferred consideration payable	1,000,000	1,000,000
Non-current		
Deferred consideration payable	–	919,143
	1,000,000	1,919,143

ACCOUNTING POLICY FOR DEFERRED CONSIDERATION

On 1 September 2015 Armour Energy (Surat Basin) Pty Ltd, a subsidiary of Armour Energy Ltd, entered into agreements to acquire the Kincora Project from Oil Investments Pty Ltd (Origin Energy). The combined agreements totalled a cash purchase price of $10 million plus $3 million deferred consideration, which was contingent on first gas. The Group achieved first gas in September 2017, and the deferred consideration became due.

The deferred element consisted of three $1 million payments to be made on the 1st, 2nd, and 3rd anniversary of first gas. The final payment is due in September 2020 and $1 million has been classified as a current liability.

NOTE 22. CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Tribeca Loan Facility	5,663,940	–
FIIG Corporate Bond	6,050,000	–
FIIG Corporate Bond accrued interest	–	1,203,125
	11,713,940	1,203,125

NOTE 23. NON-CURRENT LIABILITIES – BORROWINGS

TOTAL SECURED LIABILITIES

The total secured liabilities are as follows:

	Consolidated	
	30 June 2020 $	30 June 2019 $
Tribeca Loan Facility	–	4,648,566
FIIG Corporate Bonds	45,100,000	55,000,000
FIIG Corporate Bonds – issue costs	(1,977,421)	(2,233,323)
	43,122,579	57,415,243

Refer to note 26 for further information on financial risk management.

The Group complied with all covenant requirements of the Tribeca loan facility and FIIG Corporate bonds during the year ended 30 June 2020.

	Consolidated	
	30 June 2020 $	30 June 2019 $
Corporate Bond facility		
Movement in carrying amounts:		
Face value of corporate bond facility	51,150,000	55,000,000
Issue costs of corporate bond facility	(2,350,866)	(2,350,866)
Amortisation of bond facility costs	373,445	117,543
	49,172,579	52,766,677
Tribeca loan facility		
Movement in carrying amounts:		
Face value of loan facility	6,759,200	6,759,200
Issue costs of loan facility	(137,218)	(137,218)
Other equity securities – value of conversion rights, net of issue costs	(2,893,012)	(2,893,012)
Amortisation of loan facility	1,885,603	895,986
Amortisation of issue costs	49,367	23,610
	5,663,940	4,648,566

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NOTE 23. NON-CURRENT LIABILITIES – BORROWINGS

FACILITY TERMS AND SECURITY DISCLOSURES

Corporate bond facility

On 29 March 2019, Armour Energy Limited announced settlement of a new $55 million corporate bond facility, refinancing all outstanding convertible notes on issue, which were due for redemption in September 2019. The bond also provided additional funding for exploration and general working capital.

The main terms of the new corporate bond are as follows:

- Issue date of 29 March 2019, with 55,000 new $1,000 corporate bond notes issued raising a total of $55,000,000, before costs.
- Notes will amortise by 52% from 29 March 2021 until and including the day immediately prior to the Maturity Date.
- The notes are secured over all of the assets of the Group (other than its shares in Armour Energy International Pty Ltd).
- Coupon rate attached is 8.75% per annum, payable quarterly in arrears.
- The Maturity Date for the notes is five years from issue date.

Tribeca loan facility

On 26 July 2018, Armour Energy Limited and its subsidiary, Armour Energy (Surat Basin) Pty Ltd (Armour Surat) had entered into a credit facility agreement (Tribeca Facility Agreement) with Equity Trustees Limited (in its capacity as the trustee of the Tribeca Global Natural Resources Credit Fund) and Tribeca Global Natural Resources Credit Master Fund (together Tribeca) for the provision by Tribeca of an environmental bonding finance facility to Armour Surat (the Tribeca Facility). The Tribeca Facility is secured by a guarantee from the Company, a second ranking specific security over two (2) bank accounts controlled by Westpac Banking Corporation (the Credit Accounts) in the name of Armour Surat, and a second ranking featherweight security interest over all the present and after-acquired property of Armour Surat.

The Tribeca Facility has a 9% per annum coupon rate payable by Armour Surat quarterly in arrears on amounts drawn and in addition, the Company granted 41,000,000 unlisted options to Tribeca to subscribe for ordinary shares (Options) with an exercise price of A$0.166. The Options will expire on the third anniversary of the first drawdown date under the Tribeca Facility. A Black-Scholes model was used to determine the fair value of the share options issued at grant date. The following assumptions were used to determine the fair value of each option:

Underlying share price	$0.10
Volatility	92.045%
Risk free rate	2.10%
Expiry	31 July 2021
Vesting	Immediate
Dividend yield	0%
Exercise price	$0.161

The value of each option was determined to be $0.0485 per option.

ACCOUNTING POLICY FOR BORROWINGS

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

NOTE 24. FINANCE COSTS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Interest expense	4,769,248	6,425,620
Financing fees	864,654	73,484
Amortisation of debt facilities and associated issue costs	1,477,710	3,307,656
Unwinding of provision for contingent consideration	80,857	109,903
Gain (loss) on conversion of convertible notes to shares	–	(20,519)
Cost of convertible note early redemption	–	3,760,165
	7,192,469	13,656,309

NOTE 25. FAIR VALUE MEASUREMENT

FAIR VALUE HIERARCHY

The following tables detail the Group's assets and liabilities, measured, or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3	Unobservable inputs for the asset or liability

Consolidated – 30 June 2020	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets (liabilities) at fair value through other comprehensive income	–	–	1,087,510	1,087,510
Total assets	–	–	1,087,510	1,087,510

Consolidated – 30 June 2019	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets (liabilities) at fair value through other comprehensive income	2,125,010	–	–	2,125,010
Total assets	2,125,010	–	–	2,125,010

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

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NOTE 25. FAIR VALUE MEASUREMENT CONTINUED

FAIR VALUE HIERARCHY CONTINUED

The fair values of all 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.

Level 3 inputs used in determining the fair value of the Lakes Oil investment was based on an external valuation report that determined the implied equity value of the convertible notes issued by LKO. The external valuation report assumed the following:

- 100% volatility of stock
- 0% dividend yield
- 0.74% risk free rate

ACCOUNTING POLICY FOR 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 principal 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 interests. 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 at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of 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.

NOTE 26. FINANCIAL RISK MANAGEMENT

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 corporate bonds.

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.

Risk management is carried out by senior finance executives ('finance') under policies approved by the board. These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls, and risk limits. Finance identifies, evaluates and manages financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Further details regarding these policies are set out below.

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 is exposed to market risk on investments in equity securities, and these investments are measured at fair value based on quoted market rates. Management considers market risk on this class of assets to be minor given the low value of the assets, and stability of long-term market rates.

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.

PRICE RISK

The Group has short-term and longer-term commercial contracts for the sale of its oil and gas products, some of which contain pricing which is adjustable annually for the Consumer Price Index (CPI) and some of which are set with reference to the variable Australian domestic gas price.

To manage these exposures, forward Australian domestic price forecasts are monitored regularly and reported to the board.

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NOTE 26. FINANCIAL RISK MANAGEMENT CONTINUED

PRICE RISK CONTINUED

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the gas and associated liquid products it produces. The Group is not of a size to have influence on gas or other petroleum product prices and is therefore a price-taker in general terms. The Group manages this risk by continuously monitoring actual and forecast commodity prices and analysing the impact these changes will have on profitability and cashflow.

Interest rate risk

Interest rate risk arises principally from cash and cash equivalents. The Company's corporate bond has a fixed coupon rate, and thus no variable interest rate exposures. 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. As at the reporting date, the Group had no variable rate borrowings outstanding.

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references, and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date 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. The Group does not hold any collateral.

Credit risk is reviewed regularly by the Board. It arises from exposure to receivables as well as through deposits with financial institutions.

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.

Refer to note 14 for credit risk exposure of trade and other receivables.

LIQUIDITY RISK

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

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. For further details on liquidity risk refer to the tables below.

FINANCING ARRANGEMENTS

The Group had no access to undrawn borrowing facilities at the end of the reporting period (2019: nil).

REMAINING CONTRACTUAL MATURITIES

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate	*1 year or less*	*Between 1 and 2 years*	*Between 2 and 5 years*	*Over 5 years*	*Remaining contractual maturities*
Consolidated – 30 June 2020	*%*	*$*	*$*	*$*	*$*	*$*
Non-derivatives						
Non-interest bearing						
Trade payables	–	6,605,726	–	–	–	6,605,726
Deferred consideration	–	1,000,000	–	–	–	1,000,000
Interest-bearing – fixed rate						
Tribeca facility	9.00%	608,328	6,802,534	–	–	7,410,862
Corporate bonds	8.75%	10,363,203	25,208,906	27,970,078	–	63,542,187
Capital lease	16.30%	33,487	–	–	–	33,487
Lease liability	6.30%	156,397	33,247	–	–	189,644
Total non-derivatives		18,767,141	32,044,687	27,970,078	–	78,781,907

Consolidated – 30 June 2019	*%*	*$*	*$*	*$*	*$*	*$*
Non-derivatives						
Non-interest bearing						
Trade payables	–	4,025,736	–	–	–	4,025,736
Deferred consideration	–	1,000,000	–	–	–	1,000,000
Interest-bearing – fixed rate						
Tribeca facility	9.00%	608,328	7,412,528	–	–	8,020,856
Corporate bonds	8.75%	4,812,500	21,607,265	47,637,735	–	74,057,500
Capital lease	8.25%	38,381	28,786	–	–	67,167
Total non-derivatives		10,484,945	29,048,579	47,637,735	–	87,171,259

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NOTE 26. FINANCIAL RISK MANAGEMENT CONTINUED

REMAINING CONTRACTUAL MATURITIES CONTINUED

Interest payable on the corporate bonds is quarterly in arrears. The corporate bonds mature on 29 March 2024.The Group manages liquidity risk by monitoring forecast cash flows and liquidity ratios such as working capital.

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

NOTE 27. EQUITY – ISSUED CAPITAL

ISSUED AND PAID UP CAPITAL

	Consolidated			
	30 June 2020 Shares	30 June 2019 Shares	30 June 2020 $	30 June 2019 $
Ordinary shares – fully paid	779,247,711	509,437,570	121,221,533	112,815,145
Share issue costs	–	–	(8,999,494)	(8,291,395)
Recognition of deferred tax asset relating to share issue costs	–	–	2,088,777	2,015,078
	779,247,711	509,437,570	114,310,816	106,538,828

MOVEMENTS IN ORDINARY SHARE CAPITAL

Details	Date	Shares	Issue price	$
Balance	1 July 2018	405,175,941		96,367,882
Shares issued for cash (Entitlement Offer)	10 August 2018 November 2018	101,384,299	$0.100	10,138,395
Shares issued under employment contracts	7 November 2018	209,425	$0.100	20,942
Conversion of convertible notes into shares	28 August 2018	980,176	$0.110	107,315
Conversion of convertible notes into shares (1 note for 1.0047 ordinary shares)	27 November 2018	427,555	$0.110	46,811
Shares issued under employment contracts ($0.084 per share)	18 January 2019	543,040	$0.084	45,615
Shares issued under employment contracts ($0.096 per share)	1 May 2019	352,564	$0.096	33,846
Shares issued under employment contracts ($0.074 per share)	24 June 2019	364,570	$0.074	26,978
Share issue costs				(298,366)
Recognition of deferred tax assets relating to share issue costs				49,410
Balance	30 June 2019	509,437,570		106,538,828
Shares issued for cash (Entitlement Offer)	30 September 2019	80,000,000	$0.050	4,000,000
Shares issued under employment contracts	5 November 2019	1,164,384	$0.058	67,534
Shares issued for cash (Entitlement Offer)	23 June 2020	165,273,600	$0.023	3,801,294
Shares issued for cash (Entitlement Offer)	30 June 2020	23,372,157	$0.023	537,560
Share issue costs				(708,099)
Recognition of deferred tax assets relating to share issue costs				73,699
Balance	30 June 2020	779,247,711		114,310,816

ORDINARY SHARES

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.

OPTIONS

The following share options were on issue at balance date:

Grant Date	*Expiry Date*	*Number*	*Exercise price*	*% vested*
29/03/2016	29/03/2021	2,550,000	$0.195	100.00%
29/03/2016	29/03/2021	2,550,000	$0.345	100.00%
29/03/2016	29/03/2021	1,650,000	$0.495	100.00%
31/07/2018	31/07/2021	41,000,000	$0.161	100.00%
01/10/2019[1]	30/09/2023	40,000,000	$0.080	100.00%
17/12/2019[1]	30/09/2023	8,000,000	$0.080	100.00%
23/06/2020[2]	29/02/2024	31,166,497	$0.050	100.00%
30/06/2020[2]	29/02/2024	7,018,341	$0.050	100.00%
		133,934,838		

1 In September 2019, the Company closed a private placement raising gross proceeds of $4 million via an allocation of 80 million shares at a price of 5 cents each. Investors also received one (1) unlisted option exercisable at 8 cents (through to 30 September 2023) for every two (2) shares subscribed, resulting in 40,000,000 unlisted options being issued.

2 In June 2020, the company announced a further capital raising program. there was an attaching option for every two (2) New Shares issued under the Entitlement Offer and / or Placement available to both institutional and retail eligible shareholders. There were 38,184,838 options issued exercisable at 5 cents and expiring 29 February 2024.

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

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NOTE 27. EQUITY – ISSUED CAPITAL CONTINUED
ACCOUNTING POLICY FOR ISSUED CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTE 28. EQUITY – RESERVES

	Consolidated	
	30 June 2020 $	30 June 2019 $
Financial assets at fair value through other comprehensive income reserve	(5,339,941)	(4,298,693)
Share-based payments option reserve	4,887,176	4,674,376
Performance shares reserve	5,382	–
Tribeca Loan Option Reserve	2,893,012	2,893,012
	2,445,629	3,268,695

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME RESERVE

The reserve is used to recognise increments and decrements in the fair value of financial assets at fair value through other comprehensive income.

SHARE-BASED PAYMENTS RESERVE

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

MOVEMENTS IN RESERVES

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Financial assets at fair value through OCI $	Share-based payments option reserve $	Performance rights reserve $	Performance shares reserve $	Convertible note reserve $	Equity conversion right – Tribeca Loan $	Total $
Balance at 1 July 2018	(2,809,800)	4,632,240	125,000	125,000	5,402,322	–	7,474,762
Revaluation – gross	(2,126,990)	–	–	–	–	–	(2,126,990)
Deferred tax	638,097	–	–	–	–	–	638,097
Share-based payments	–	42,136	–	–	–	–	42,136
Value of conversion rights – convertible notes, net of issue costs	–	–	–	–	(20,520)	–	(20,520)
Value of conversion rights – Tribeca loan, net of issue costs	–	–	–	–	–	2,893,012	2,893,012
Reserve transfer – expired share-based payments	–	–	(125,000)	(125,000)	–	–	(250,000)
Transfer of conversion rights on redemption of convertible notes	–	–	–	–	(5,381,802)	–	(5,381,802)
Balance at 30 June 2019	(4,298,693)	4,674,376	–	–	–	2,893,012	3,268,695
Revaluation – gross	(1,487,500)	–	–	–	–	–	(1,487,500)
Deferred tax	446,252	–	–	–	–	–	446,252
Share-based payments	–	212,800	–	5,382	–	–	218,182
Balance at 30 June 2020	(5,339,941)	4,887,176	–	5,382	–	2,893,012	2,445,629

NOTE 29. INTERESTS IN SUBSIDIARIES

		Ownership interest	
Name	Principal place of business / Country of incorporation	30 June 2020 %	30 June 2019 %
Ripple Resources Pty Ltd	Northern Australia / Australia	100.00%	100.00%
Armour Energy (Victoria) Pty Ltd	Victoria / Australia	100.00%	100.00%
Armour Energy (Surat Basin) Pty Ltd	Queensland / Australia	100.00%	100.00%
Armour Energy (Queensland) Pty Ltd	Queensland / Australia	100.00%	100.00%

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NOTE 30. INTERESTS IN JOINT OPERATIONS

Information relating to joint operations that are material to the Group are set out below:

		Ownership interest	
Name	Principal place of business / Country of incorporation	30 June 2020 %	30 June 2019 %
PL 1084 (Formerly ATP 2046) Sykes Block	Queensland / Australia	10.00%	10.00%
ATP119P South – Waldegrave	Queensland / Australia	46.25%	46.25%
ATP119P South – Snake Creek East	Queensland / Australia	25.00%	25.00%
ATP 212P – PL 30	Queensland / Australia	90.00%	90.00%
ATP212P – PL512, PPL22	Queensland / Australia	84.00%	84.00%
Weribone Pooling Area	Queensland / Australia	50.64%	50.64%
PCA157 Bainbilla Block	Queensland / Australia	24.75%	24.75%
ATP 754P	Queensland / Australia	50.00%	50.00%
ATP 1087	Queensland / Australia	30.00%	100.00%
PEP 169	Victoria / Australia	51.00%	51.00%
PEP 166	Victoria / Australia	25.00%	25.00%
Kanywataba Block	Uganda	16.82%	16.82%

ACCOUNTING POLICY FOR JOINT OPERATIONS

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group entered into joint arrangement with various parties for interest in exploration tenements as disclosed above. Exploration expenditures incurred in relation to these joint operations have been capitalised in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources.

NOTE 31. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Parent	
	30 June 2020 $	30 June 2019 $
Loss after income tax	(12,147,033)	(18,597,164)
Other Comprehensive income for the year, net of tax	(1,041,248)	(1,488,893)
Total Comprehensive income	(13,188,281)	(20,086,057)

STATEMENT OF FINANCIAL POSITION

	Parent	
	30 June 2020 $	30 June 2019 $
Total current assets	792,406	6,250,473
Total assets	90,565,129	99,710,194
Total current liabilities	2,135,332	2,474,046
Total liabilities	51,344,615	55,291,576
Equity		
Issued capital	114,310,806	106,538,817
Financial assets at fair value through other comprehensive income reserve	(5,337,946)	(4,296,703)
Share-based payments option reserve	4,887,176	4,674,376
Performance shares reserve	5,382	-
Tribeca Loan Option Reserve	2,893,012	2,893,012
Accumulated losses	(77,537,916)	(65,390,884)
Total equity	39,220,514	44,418,618

GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

As at 30 June 2020, the parent entity is a guarantor for its subsidiary Armour Energy (Surat Basin) Pty Ltd for debts relating to the Tribeca loan facility.

CONTINGENT LIABILITIES

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

CAPITAL COMMITMENTS – PROPERTY, PLANT AND EQUIPMENT

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

NOTE 32. RELATED PARTY TRANSACTIONS

PARENT ENTITY

Armour Energy Limited is the parent entity of the Group and listed on the ASX on 26 April 2012.

SUBSIDIARIES

Interests in subsidiaries are set out in note 31.

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Notes to the consolidated financial statements continued

NOTE 32. RELATED PARTY TRANSACTIONS CONTINUED

JOINT OPERATIONS

Interests in joint ventures are set out in note 32.

KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in note 36 and the remuneration report included in the Directors' report.

TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties during the reporting period:

	Consolidated	
	30 June 2020 $	30 June 2019 $
Payment for goods and services:		
Payment for services from entity with significant influence – DGR Global Ltd[1]	456,000	456,000
Payment for services from other related party – Bizzell Capital Partners[2]	336,039	144,500

1 The Group has a commercial arrangement with DGR Global Ltd (a major shareholder) 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 operation), 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 (2019: $38,000). For the year ended 30 June 2020 $456,000 (2019: $456,000) was paid or payable to DGR Global for the provision of the Services. The total amount outstanding at year end was $167,200 (2019: $88,930). As at 30 June 2020 DGR Global held nil convertible notes, and 8,750 corporate bonds totalling $8,750,000 (2019: nil convertible notes, 8,750 corporate bonds). The corporate bonds were purchased on the same terms and conditions as other bondholders.

2 On 23 September 2019, Armour Energy completed a private placement which raised gross proceeds of $4 million via the allotment of 80 million shares, with attaching unlisted options. Bizzell Capital Partners managed the private placement and was paid a capital raising fee of $240,000. Bizzell Capital Partners received an allotment of 8 million unlisted options exercisable at 8 cents through to 30 September 2023. Of the 8 million options, 2 million were subsequently transferred to an unrelated sub-underwriter.

During June 2020, Armour announced a capital raising comprising a Placement and an Entitlement Offer, with the Entitlement Offer being fully underwritten by Bizzell Capital Partners. Bizzell Capital Partners was paid $22,687 under the Underwriting Agreement, and $73,352 in relation to the allotment of Placement Shares on 23 June 2020.

As at 30 June 2020, Bizzell Capital Partners held 6 million unlisted options, nil convertible notes, and 100 corporate bonds (2019: nil underwriting options, nil convertible notes, and 100 corporate bonds). The corporate bonds were purchased on the same terms and conditions as all other bondholders.

Samuel Holdings Pty Ltd

Samuel Holdings Pty Ltd is an entity associated with the Company's Chairman, Nicholas Mather. Samuel Holdings held 9,813,550 convertible notes which were redeemed for cash on 29 March 2019 for a total of $1,194,427. During the prior year Samuel Holdings was also paid interest on their convertible notes of $159,705.

Samuel Holdings Pty Ltd and Bizzell Capital Partners

In August 2019, Armour completed an entitlement offer fully underwritten by Samuel Holdings Pty Ltd (as trustee). Samuel Holdings was paid a $1 underwriting fee, and a 3% sub-underwriting fee was payable by Armour on written sub-underwriting commitments. Bizzell Capital Partners held a sub-underwriting agreement and was responsible for any 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 to Bizzell Capital Partners for the year ended 30 June 2020 was $264,000 (2019: $144,500).

Company debt instruments held by key management personnel

The number of convertible notes in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Additions	Disposals/other	Balance at the end of the year
Corporate bond holdings				
Stephen Bizzell	100	–	–	100

All other directors and key management personnel did not hold any debt instruments in the Company at the start, during or at the end of the year.

NOTE 33. NON-CURRENT ASSETS – RIGHT-OF-USE ASSETS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Motor vehicles – right-of-use	626,477	–
Less: Accumulated depreciation	(410,460)	–
	216,017	–

ACCOUNTING POLICY FOR RIGHT-OF-USE ASSETS

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment in line with AASB138 Impairment of Assets or adjusted for any remeasurement of lease liabilities.

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NOTE 33. NON-CURRENT ASSETS – RIGHT-OF-USE ASSETS CONTINUED
ACCOUNTING POLICY FOR RIGHT-OF-USE ASSETS CONTINUED

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Refer to note 43 for further information on the impact of the adoption of AASB 16.

NOTE 34. KEY MANAGEMENT PERSONNEL DISCLOSURES
COMPENSATION

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	30 June 2020 $	30 June 2019 $
Short-term employee benefits	1,741,662	1,607,495
Post-employment benefits	73,720	75,796
Share-based payments	72,916	22,019
Short-term non-monetary benefits	48,242	66,956
	1,936,540	1,772,266

NOTE 35. CURRENT AND NON-CURRENT LIABILITIES – LEASE LIABILITIES

	Consolidated	
	30 June 2020 $	30 June 2019* $
Current Lease liability	189,884	38,381
Non-Current Lease liability	33,247	28,786
	223,131	67,167

* Reclassification of capital leases in 2019 from borrowings into lease liabilities.

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or an interest rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Refer to note 45 for further information on the transition to AASB 16.

NOTE 36. CURRENT LIABILITIES – EMPLOYEE BENEFITS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Employee benefit obligations	401,071	309,040

ACCOUNTING POLICY FOR EMPLOYEE BENEFITS
Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date 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

Defined contribution superannuation expense

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

NOTE 37. NON-CURRENT LIABILITIES – EMPLOYEE BENEFITS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Employee benefits	49,177	51,371

ACCOUNTING POLICY FOR EMPLOYEE BENEFITS

The liability for long service leaves 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.

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NOTE 38. SHARE-BASED PAYMENTS

TYPES OF SHARE-BASED PAYMENTS

Employee Share Option Plan (ESOP)

Share options are granted to employees. The employee share option 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.

Summary of share-based payment plans

The following table illustrates the number 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.

	2020 WAEP	2020 Number	2019 WAEP	2019 Number
Outstanding at the beginning of the year	$0.30	17,375,000	$0.29	22,875,000
Forfeited during the year		-	$0.27	(5,500,000)
Expired during the year	$0.28	(10,625,000)		-
Outstanding and exercisable at the end of the year	$0.33	6,750,000	$0.30	17,375,000

There were no options issued to employees and Directors under the Armour Energy Employee Share Option Plan during 2020 (2019: NIL). The options outstanding as at 30 June 2020 have a weighted average remaining contractual life of 0.75 years and exercise price of $0.33.

Other option issues

The following table illustrates the number of, and movements in, other options issued for commercial consideration during the year.

	2020 WAEP	30 June 2020 Number	2019 WAEP	30 June 2019 Number
Balance at the start of the year[1]	$0.17	43,000,000	$0.20	7,000,000
Granted during the year[2]	$0.01	8,000,000	$0.16	41,000,000
Expired during the year	$0.27	(2,000,000)	$0.20	(5,000,000)
	$0.15	49,000,000	$0.17	43,000,000

The other options outstanding as at 30 June 2020 have a weighted average remaining contractual life of 1.44 years and exercise price of $0.15.

1 *The opening balance of options were issued in two tranches*
(i) 2,000,000 unlisted options to take up one ordinary share in Armour Energy Limited at various prices. The options were granted to MH Carnegie in lieu of any fees for their consent for the issue of further convertible notes, to change redemption rights and in lieu of the requirement for the Company to issue options for a further MH Carnegie nominee to the Board.
(ii) On 31 July 2018, the Company issued 41,000,000 options to Tribeca Global Resources Credit Master Fund (Tribeca) at an exercise price of $0.166 per ordinary share (adjusted to $0.161 per ordinary share following the 2018 entitlement issue). The options were issued as part of the agreement for Tribeca to provide a $6.8 million environmental bonding funding facility (see the financial liabilities note for further details).

2 *Granted this year*
Bizzell Capital Partners managed the private placement close on 23 September 2019 and was entitled to receive an allotment of 8,000,000 unlisted options exercisable at 8 cents through to 30 September 2023. Of the 8 million, 2 million were subsequently transferred to an unrelated sub-underwriter.

The fair value of these options at grant date was $212,800. This value was calculated using a Black Scholes option pricing model applying the following inputs:

Number of options	8,000,000
Exercise price	$0.080
Share price on grant date	$0.056
Grant date	30/09/2019
Expiry date	30/09/2023
Volatility	75.493%
Dividend yield	0%
Risk-free interest rate	0.78%
Weighted average fair value at grant date	$0.0266

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NOTE 38. SHARE-BASED PAYMENTS CONTINUED
TYPES OF SHARE-BASED PAYMENTS CONTINUED
Performance shares

	Consolidated 30 June 2020 $	30 June 2019 $
Balance at the start of the year	–	–
Granted during the year (ii)	7,200,000	–
Expired during the year	–	–
	7,200,000	–

During the year ended 30 June 2020, 7,200,000 performance shares were awarded to Chief Executive Officer, Mr Bradley Lingo, in six tranches. The performance shares expire on termination of employment. Grant date for each tranche was 12 June 2020. The fair value of these performance shares at grant date was $173,160. This value was calculated based on the share price at the date the performance shares were granted multiplied by the number of performance shares expected to vest, with the exception of tranche 2, which was valued using a Monte Carlo simulation model. Refer below for the key inputs to the model.

No	Performance Criteria	Number of Performance Shares	Vesting date	% vested	Fair value at grant date
1.	On the first Commercial Discovery in the Co-Era Assets being determined in accordance with recognised standards in the oil and gas industry and announced by the Company	900,000	30/06/2020	–	$0.027
2.	The VWAP for Shares trading on ASX for 20 consecutive days is not less than 500% over the closing price for Shares on the last trading day before the Commencement Date.	1,800,000	12/06/2025	–	$0.016
3.	The Board approving the entering into of a farm- out or other commercial agreement in respect of the NT Assets.	1,350,000	31/03/2021	–	$0.027
4.	The Board approving a refinancing of the FIIG Notes.	1,350,000	31/12/2021	–	$0.027
5.	The Company achieving a stabilised flow rate of in excess of 14TJ's per day from the Kincora Gas Project	900,000	31/12/2021	–	$0.027
6.	On the first Commercial Discovery on any Licences other than (a) The Kincora Gas Project; and (b) The CoEra Assets.	900,000	30/06/2023	–	$0.027

The fair value of tranche 2 of the above performance shares at grant date was $28,980. This value was calculated using a Monte Carlo simulation pricing model applying the following inputs:

	Tranche 2
Number of performance shares	1,800,000
Exercise price	$–
Share price on grant date	$0.02
Grant date	12/06/2020
Expiry date	n/a
Volatility	103%
Dividend yield	0%
Risk-free interest rate	0.39%
Weighted average fair value at grant date	$0.0161

SHARE BASED PAYMENT EXPENSE
Equity settled share-based payments

For the year ended 30 June 2020 $67,534 of other employment benefits were taken as ordinary shares in lieu of cash (2019: $99,961).

OPTION EXPENSE

There was no share option expense recognised in the statement of profit or loss and other comprehensive income for the year ended 30 June 2020 (2019: $42,136).

ACCOUNTING POLICY FOR SHARE-BASED PAYMENTS

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

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NOTE 39. COMMITMENTS

	Consolidated	
	30 June 2020 $	30 June 2019 $
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Oil and Gas assets	–	6,333,398

The capital commitments related to the executed Gas Acceleration Program (GAP) with the federal government, which aims to increase gas supply to the domestic gas market. The agreed work program consists of accelerating one production well and drilling three additional production wells at the Group's Kincora Project. The program finished in October 2019 and therefore there are no further amounts committed.

	30 June 2020 $	30 June 2019 $
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	–	207,873
One to five years	–	150,871
	–	358,744
Lease commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	–	38,381
One to five years	–	28,786
Total commitment	–	67,167
Less: Future finance charges	–	-
Net commitment recognised as liabilities	–	67,167
Exploration Expenditure Commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	13,451,427	18,442,987
One to five years	33,037,547	37,477,283
More than five years	-	1,810
	46,488,974	55,922,080

CAPITAL 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.

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.

NOTE 40. CONTINGENT LIABILITIES

EXPLORATION LIABILITIES

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 2020.

NOTE 41. EVENTS AFTER THE REPORTING PERIOD

Other than the below subsequent events, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect Armour's operations, the results of those operations, or Armour's state of affairs in future financial years.

- On 1 July 2020, Armour announced that Cordillo Energy Pty Ltd, a 100% subsidiary of Oilex Limited and one of the companies include in the Oilex transaction with Armour, was successful in bidding for Block CO2019-E in the Northern Flank of the Cooper Basin, South Australia.
- On 10 July 2020, the Company announced a further extension to the closing date of the Entitlement Offer to 5 August 2020. On the 18 September 2020, the Company announced that it had successfully completed the capital raising and will raise a total of $15 million, subject to necessary approvals.
- On 27 July 2020, the Farmin Agreement between the Company and Santos QNT Pty Ltd was amended to accelerate payments relating to the permit award process, resulting in Santos made a one-off, unconditional accelerated cash payment of $A6 million in total in full consideration of all future contingent permit transfer payments covering the Application Areas.
- On 15 August 2020, the Company received the second payment of $3.5 million from the Sales and Purchase Agreement with Australia Pacific LNG Pty Ltd for the sale of Armour's 10% interest in Petroleum Lease 1084 known as the "Murrungama block" (PL1084).
- As a result of the above asset transactions, Armour made a $5.3 million early principal amortisation payment on the Secured Amortising Notes during August 2020.
- On 18 August 2020, Armour executed a term sheet with Auburn Resources Limited, a public, unlisted company, for the sale of Ripple Resources Pty Ltd, for 5,600,000 fully paid shares in Ripple Resources Pty Ltd.

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NOTE 42. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by BDO Audit Pty Ltd and related entities.

	Consolidated	
	30 June 2020 $	30 June 2019 $
Audit services – BDO Audit Pty Ltd		
Audit or review of the financial statements	88,642	87,552
Other services – BDO Audit Pty Ltd and related entities		
Grant funding audit	6,700	3,200
Other non-audit services*	24,905	16,001
	31,605	19,201
	120,247	106,753

* The non-audit services included the advice on the redemption of the convertible notes.

NOTE 43. ACCOUNTING POLICIES

NEW AND REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Adoption of new and revised accounting standards

The accounting policies adopted are consistent with those of the previous financial year except for changes arising from the adoption of the following new accounting pronouncements which came into effect in the current reporting period:

- AASB 16 Leases
- Interpretation 23 Uncertainty over Income Tax Treatments

Armour elected to apply the modified retrospective approach on transition to AASB16, with the cumulative effect being recognised in retained earnings at 1 July 2019. The comparative period has not been restated.

The other amendments did not have any impact on the amounts recognised in prior periods and are not expected to have a significant effect on the current or future periods.

AASB 16 Leases

AASB 16 supersedes AASB 17 Leases and sets out the principles for the recognition, measurement, presentation, and disclosure of leases. Armour has adopted AASB 16 from 1 July 2019. The standard eliminates the distinction between operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs).

In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss.

For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. The standard does not substantially change how a lessor accounts for leases. The impact of the adoption of AASB 16 on Armour's consolidated financial statements is below.

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right-of-use assets – increase by $314,278
- lease liabilities – increase by $277,658

Using a weighted average incremental borrowing rate of 6.2%, the net impact on retained earnings on 1 July 2019 was a decrease of $36,620. A reconciliation of note 39 Commitments of the 30 June 2019 annual report is as follows:

	1 July 2019 $
Operating lease commitments disclosed as at 30 June 2019	358,744
Impact of discounting operating lease commitments to present value	(81,086)
Operating lease commitments discounted using the lessees incremental borrowing rate at the date of initial application	277,658
Add: finance lease liabilities recognised as at 30 June 2019	67,167
Lease Liability recognised as at 1 July 2019	344,825
Of which are:	
Current lease liabilities	207,178
Non-current lease liabilities	137,647

Impact of the new definition of a lease

Armour has elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases, applying AASB 117 at the date of initial application. Therefore, the definition of a lease in accordance with AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease will continue to be applied for those leases entered into or modified before 1 July 2019.

Upon application Armour excluded initial direct costs from the measurement of the rights-of use asset and used hindsight in determining the term if the contract contained options to extend or terminate the lease.

The change to the definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

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NOTE 43. ACCOUNTING POLICIES CONTINUED

NEW AND REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS CONTINUED

AASB 16 Leases continued

Former operating leases

AASB 16 changes how Armour's accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet.

See note 33 for further information on accounting for AASB16.

Short term leases (lease terms of 12 months or less) and lease of low value assets

Armour has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short term leases'), and the lease contracts for which the underlying asset is of low value ('low-value assets').

For short-term leases (lease term of 12 months or less) and leases of low value assets, Armour has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within other expenses in the consolidated statement of profit or loss.

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 Uncertainty over income tax treatments is to be applied when there is uncertainty of income tax treatments under IAS 12. It requires judgement to be made in relation to whether or not tax treatments should be considered independently or together, with the decision being based on the most probable resolution of the uncertainty. It is not expected to have a significant effect on the current or future periods.

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by Armour for the annual reporting period ended 30 June 2020. On evaluating these standards and interpretations, management do not expect a material impact upon the financial statements on their adoption.

The adoption of the remaining standards and interpretations of the above has been assessed and will not have any material impact on the current or any prior period and is not likely to materially affect future periods.

Directors' declaration

The Directors of the Group declare that:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements.
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements.
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to Section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Nicholas Mather
Executive Chairman
30 September 2020

Financial report continued
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 2020, the consolidated statement of profit and 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:

a) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and

b) 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 4 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.

Carrying value of oil and gas assets

Key audit matter	How the matter was addressed in our audit
Refer to Note 18 in the financial report. The Group has significant oil and gas assets following the restart and commissioning of the Kincora Gas Plant in Surat Basin, Queensland. Due to the quantum of this asset and the subjectivity involved in assessing the asset for impairment, we have determined this is a key audit matter.	Our procedures, amongst others, included: • Evaluating management's assessment if any impairment indicators in accordance with AASB 136 Impairment of Assets have been identified across the Group's oil and gas projects. • Comparing oil and gas price assumptions against third-party forecasts, peer information and relevant market data to determine whether the Group's forecasts were within the range. • Reviewing contracts and agreements with the Group's external customers to understand the existing level of contracted oil and gas sales. • Reviewing the Group's reserve estimation against reports provided by external experts and assessing their scope of work and findings. • Performing sensitivity analysis on key assumptions used by the Group to assess the impact on forecasted cash flows. • Selecting a sample of capitalised expenditure additions and agreeing to supporting documentation, as well as ensuring they qualify for recognition as assets under AASB 116 Property, Plant and Equipment.

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Financial report continued

Independent auditor's report continued

Carrying value of exploration and evaluation assets

Key audit matter	How the matter was addressed in our audit
Refer to Note 17 in the financial report. The carrying value of the Group's exploration and evaluation asset is impacted by the Group's ability, and intention, to continue to explore. The carrying value of the exploration and evaluation assets was a key audit mater due to: • The significance of the total balance • The level of procedures undertaken to evaluate managements application of the requirements of AASB 6 Exploration for the Evaluation of Mineral Resources ('AASB 6') in light of any indicators of impairment that may be present.	Our procedures, amongst others, included: • Obtaining from management a schedule of areas of interest held by the Group and selecting a sample of tenements and assessing as to whether the Group had rights to tenure over the relevant exploration areas by obtaining supporting documentation such as license agreements and also considering whether the Group maintains the tenements in good standing. • Reviewing budgets and evaluating assumptions made by the Group 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 management, and review of the Group's ASX announcements and minutes of directors' meetings. • 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 against AASB 6.

Other information

The directors are responsible for the other information. The other information comprises the information contained in Chairpersons' Report, the Directors' Report, and the Corporate Governance Summary for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date.

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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

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 (http://www.auasb.gov.au/Home.aspx) at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 40 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Armour Energy Limited, for the year ended 30 June 2020, 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.

BDO Audit Pty Ltd

BDO

R M Swaby

Director

Brisbane, 30 September 2020

Further information

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 21 September 2020.

DISTRIBUTION SCHEDULES

AJQ – Armour Energy Limited fully paid ordinary shares

Range	Securities	%	No. of holders	%
100,001 and Over	888,053,310	95.53	588	31.77
50,001 to 100,000	21,674,983	2.33	273	14.75
10,001 to 50,000	17,956,043	1.93	634	34.25
5,001 to 10,000	1,575,549	0.17	192	10.37
1,001 to 5,000	368,834	0.04	106	5.73
1 to 1,000	9,086	0.00	58	3.13
Total	**929,637,805**	**100.00**	**1,851**	**100.00**
Unmarketable Parcels	6,032,634	0.65	604	32.63

AJQOA – quoted options exercisable at $0.05 expiring 29 February 2024

Range	Securities	%	No. of holders	%
100,001 and Over	95,507,265	97.03	60	30.30
50,001 to 100,000	1,464,632	1.49	20	10.10
10,001 to 50,000	1,144,273	1.16	38	19.19
5,001 to 10,000	176,158	0.18	23	11.62
1,001 to 5,000	132,873	0.13	45	22.73
1 to 1,000	8,142	0.01	12	6.06
Total	**98,433,343**	**100.00**	**198**	**100.00**
Unmarketable Parcels	1,111,446	1.13	111	56.06

Unlisted options exercisable at $0.195 expiring 29 March 2021

Range	Securities	%	No. of holders	%
100,001 and Over	2,550,000	100.00	5	100.00
50,001 to 100,000	0	0.00	0	0.00
10,001 to 50,000	0	0.00	0	0.00
5,001 to 10,000	0	0.00	0	0.00
1,001 to 5,000	0	0.00	0	0.00
1 to 1,000	0	0.00	0	0.00
Total	**2,550,000**	**100.00**	**5**	**100.00**

Unlisted options exercisable at $0.345 expiring 29 March 2021

Range	Securities	%	No. of holders	%
100,001 and Over	2,550,000	100.00	5	100.00
50,001 to 100,000	0	0.00	0	0.00
10,001 to 50,000	0	0.00	0	0.00
5,001 to 10,000	0	0.00	0	0.00
1,001 to 5,000	0	0.00	0	0.00
1 to 1,000	0	0.00	0	0.00
Total	**2,550,000**	**100.00**	**5**	**100.00**

Unlisted options exercisable at $0.495 expiring 29 March 2021

Range	Securities	%	No. of holders	%
100,001 and Over	1,650,000	100.00	4	100.00
50,001 to 100,000	0	0.00	0	0.00
10,001 to 50,000	0	0.00	0	0.00
5,001 to 10,000	0	0.00	0	0.00
1,001 to 5,000	0	0.00	0	0.00
1 to 1,000	0	0.00	0	0.00
Total	**1,650,000**	**100.00**	**4**	**100.00**

Unlisted options exercisable at $0.161 expiring 31 July 2020

Range	Securities	%	No. of holders	%
100,001 and Over	41,000,000	100.00	1	100.00
50,001 to 100,000	0	0.00	0	0.00
10,001 to 50,000	0	0.00	0	0.00
5,001 to 10,000	0	0.00	0	0.00
1,001 to 5,000	0	0.00	0	0.00
1 to 1,000	0	0.00	0	0.00
Total	**41,000,000**	**100.00**	**1**	**100.00**

Unlisted options exercisable at $0.08 expiring 30 September 2023

Range	Securities	%	No. of holders	%
100,001 and Over	47,585,000	99.14	38	86.36
50,001 to 100,000	335,000	0.70	4	9.09
10,001 to 50,000	80,000	0.17	2	4.55
5,001 to 10,000	0	0.00	0	0.00
1,001 to 5,000	0	0.00	0	0.00
1 to 1,000	0	0.00	0	0.00
Total	**48,000,000**	**100.00**	**44**	**100.00**

Unlisted options exercisable at $0.05 expiring 29 February 2024

Range	Securities	%	No. of holders	%
100,001 and Over	2,000,000	100.00	1	100.00
50,001 to 100,000	0	0.00	0	0.00
10,001 to 50,000	0	0.00	0	0.00
5,001 to 10,000	0	0.00	0	0.00
1,001 to 5,000	0	0.00	0	0.00
1 to 1,000	0	0.00	0	0.00
Total	**2,000,000**	**100.00**	**1**	**100.00**

Further information continued
Shareholder information continued

SUBSTANTIAL HOLDERS

The Company is aware of the following substantial holdings:

Name	Ordinary Shares Number Held	Issued Capital %
DGR Global Limited	149,999,615	13.94
David Rooke*	66,127,375	11.22
Tenstar Trading Limited	65,759,455	6.11
Mr Paul Cozzi	60,695,652	5.64

* Figures per notice received dated 16 October 2019.

TWENTY LARGEST HOLDERS OF EACH QUOTED CLASS (AS AT 21 SEPTEMBER 2020)

AJQ – Armour Energy Limited fully paid ordinary shares

Name	Number of securities held	Issued capital %
DGR Global Limited	149,999,615	16.14
Rookharp Capital Pty Limited	96,844,029	10.42
Mr Paul Cozzi	52,000,000	5.59
Tenstar Trading Limited	65,559,455	7.05
Mr Tony Adams	21,739,130	2.34
Mr Graeme Andrew Beadsley & Oakley Morgan Trustee Cpy Ltd & <The China Bird A/C>	21,739,130	2.34
Citicorp Nominees Pty Limited	12,556,983	1.35
HSBC Custody Nominees (Australia) Limited	10,860,144	1.17
Mr Simon William Tritton	10,434,782	1.12
Bizzell Capital Partners Pty Ltd	10,000,000	1.08
Hayes Investments Co Pty Ltd	9,000,000	0.97
Mr Peter Maroun Kahwaji	8,000,000	0.86
PMK Properties Pty Ltd	8,000,000	0.86
Mr Ronald Geoffrey Phillips	7,431,087	0.8
Serec Pty Ltd	6,500,000	0.7
CF2 Pty Ltd	6,238,301	0.67
MR Paul Ainsworth	6,000,000	0.65
Tempest Dawn Pty Limited	5,484,782	0.59
CPS Control Systems Pty Limited	5,094,773	0.55
CD & PA Brawne Superannuation Fund Pty Ltd	5,021,780	0.54
Total of Twenty Largest Holders	**518,503,991**	**55.79**
Total Shares Held	**929,637,805**	**100.00**

AJQOA – quoted options exercisable at $0.05 expiring 29 February 2024

Name	Number of securities held	Issued capital %
DGR Global Limited	18,749,951	19.05
Mr Tony Adams	10,869,565	11.04
Mr Graeme Andrew Beadsley & Oakley Morgan Trustee Cpy Ltd & <The China Bird A/C>	10,869,565	11.04
Rookharp Capital Pty Limited	10,869,562	11.04
Tenstar Trading Limited	8,194,931	8.33
Bizzell Capital Partners Pty Ltd	5,000,000	5.08
BAM Opportunities Fund Pty Ltd	3,353,913	3.41
Serec Pty Ltd	3,250,000	3.30
Mikado Corporation Pty Ltd	2,000,000	2.03
Mr Simon William Tritton	2,000,000	2.03
Mr Ronald Geoffrey Phillips	1,413,043	1.44
Limits Pty Limited	1,086,956	1.10
Folium Capital Pty Ltd	1,086,956	1.10
Ventoux Pty Ltd	1,013,228	1.03
BAM Coolabah Investments Pty Ltd	1,000,000	1.02
Samual Holdings Pty Ltd	820,939	0.83
Mr Paul Ainsworth	750,000	0.76
Tempest Dawn Pty Limited	717,391	0.73
BNP Paribas Nominees Pty Ltd HUB24 Custodial SERV LTD	691,712	0.70
Rocket Science Pty Ltd	625,000	0.63
Total of Twenty Largest Holders	**84,362,712**	**85.69**
Total Listed Options Held	**98,433,343**	**100.00**

VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

RESTRICTED SECURITIES

There are no restrictions over any security holdings as at 30 June 2020.