Half Year Report

December 2020

Armour Energy Limited

ABN 60 141 198 414

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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
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Auditor	BDO Audit Pty Ltd Level 10 12 Creek Street BRISBANE QLD 4000
Solicitors	Hopgood Ganim Lawyers Level 21 Waterfront Place 1 Eagle Street BRISBANE QLD 4000
Stock exchange listing	ASX code: AJQ
Website	www.armourenergy.com.au

Corporate Governance Statement

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

Operating and Financial Review

Executive Summary

Armour Energy Limited (Armour or the Company) and its controlled entities (the Group) is a Brisbane based ASX listed company focused on the exploration, development and production of gas and associated liquids resources. The Company's 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.

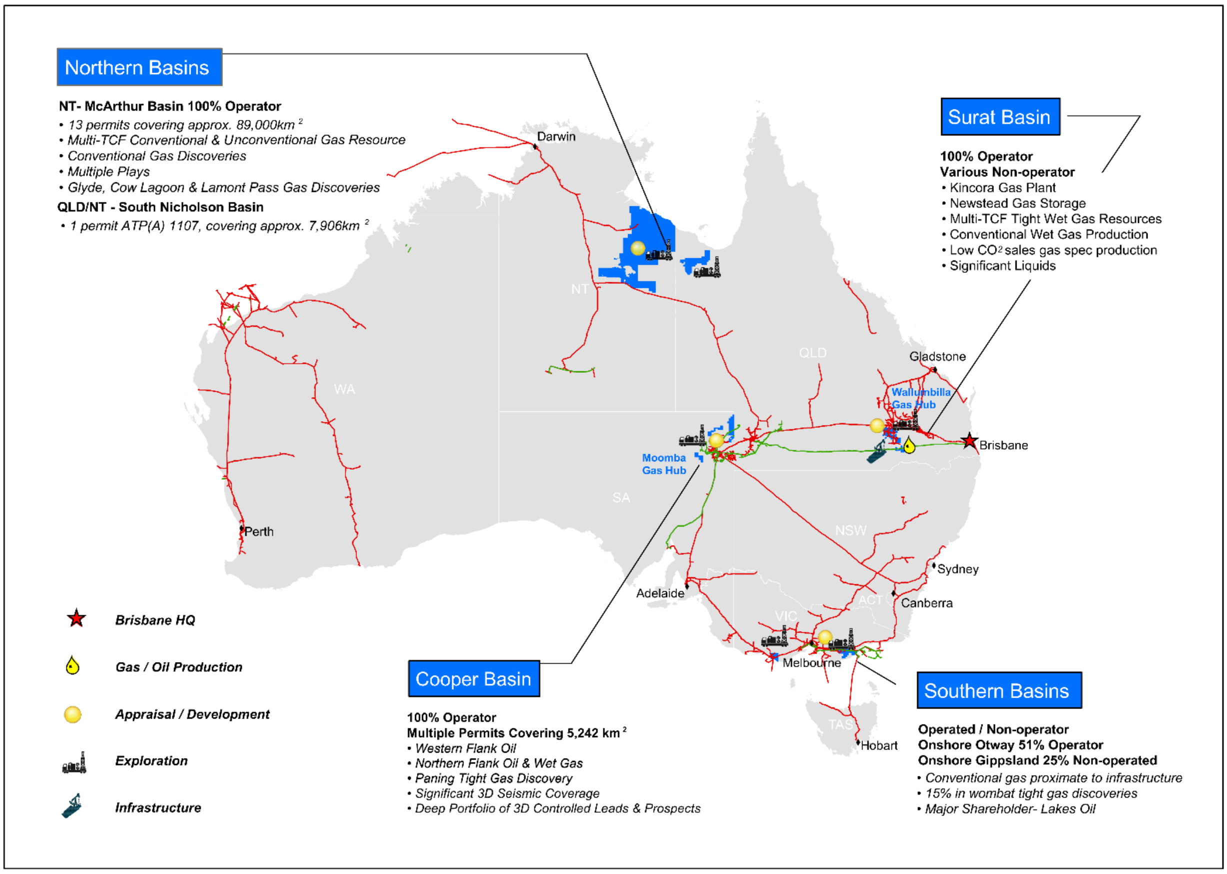

Figure 1 – Summary of Armour's assets and locations

Highlights

- During the period, Armour significantly reduced its debt by $7,500,000, with $5,300,000 accelerated amortisation from asset transactions
- Hydraulic stimulation of Warroon #1, Horseshoe #4 and Horseshoe #2 were executed with encouraging initial results with new data identifying the potential of a significant new pay zone with multiple additional candidates.
- Successfully installed artificial lifts on existing wells (Carbean #1, Sandy Creek #2, Myall Creek #3 and Myall Creek #4) to enhance production
- Execution of the sale and purchase agreement to sell Armour's remaining 30% interest in various South Nicholson Basin Permits to Santos. As consideration, Armour received approximately $12,164,000 in cash plus retained 100% ownership of Authority to Prospect Application (ATP (A)) 1107
- Completed acquisition of Oilex Limited's Cooper Basin exploration tenements – Petroleum Exploration Licences (PELs) 112, 444 and Petroleum Exploration Licences Application (PELA) 677, and 27 Petroleum Retention Licences (PRLs) in the South Australian Cooper-Eromanga Basins (Northern Fairway PRLs) - covering over 5,200 km². This makes the Company the operator and holder of the 3rd largest exploration acreage in the South Australian Cooper Basin after Santos Ltd and Beach Energy.

Kincora Gas Project

The Company delivers gas to the Eastern Australian market from its Kincora Gas Project. Kincora achieved 95% operational time in the first 6-months of FY2021 (H1 FY2020: 88%). Armour realised $8,504,000 in sales revenue for the half-year ended 31 December 2020 (HY1 FY20200: $10,994,000).

Average Sales per day*	Half-year FY2021	Half-year FY2020	Change
Gas (TJ)	6.4	8.0	(25%)
LPG (T)	10.0	11.0	(10%)
Oil/Condensate (BBL)	119.7	148.0	(24%)

* Volumes normalised to exclude shutdowns in respective years that reduced production from the Kincora Gas Plant

Kincora has been producing steadily and delivered an average normalised 6.4 TJ per day (HY1 FY2020: 8.0 TJ per day) of sales gas plus associated liquids, with a peak sales gas production rate of approximately 7.4 TJ per day (HY1 FY2020: 8.5 TJ per day) during the 6 months.

In addition to the 6–6.5 TJ per day currently being produced from Kincora, Armour is also producing on average approximately 112 barrels (H2 FY2020: 126 barrels) of oil and condensate per day, and approximately 10 tonnes (H1 FY2020: 11 tonnes) 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 26% and domestic gas price by 15% compared to prices in HY1 FY2020. 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, and moving equipment and labour, has been challenging. These COVID-19 related issues had a material impact on Armour's 2020 work program.

During the half year, Armour completed the work program of a three-well stimulation campaign and production enhancements. Horseshoe #4 and Warroon #1 were back online producing sales gas at 31 December 2020 and Horseshoe #2 clean-up completed with the well coming back online in January 2021. Further to the stimulation campaign, a number of production enhancement projects have been successfully executed and commissioned. These low risk and low capital activities improve overall well performance.

Transactions and a Focus on Debt Reduction

As announced on 20 August 2020, Armour completed a $4,000,000 Sale and Purchase Agreement with Australia Pacific LNG Pty Ltd (APLNG) for the sale of the Company's remaining 10% interest in the Murrungama PL 1084 block. The block was won as part of a successful joint tender bid with APLNG in July 2019.

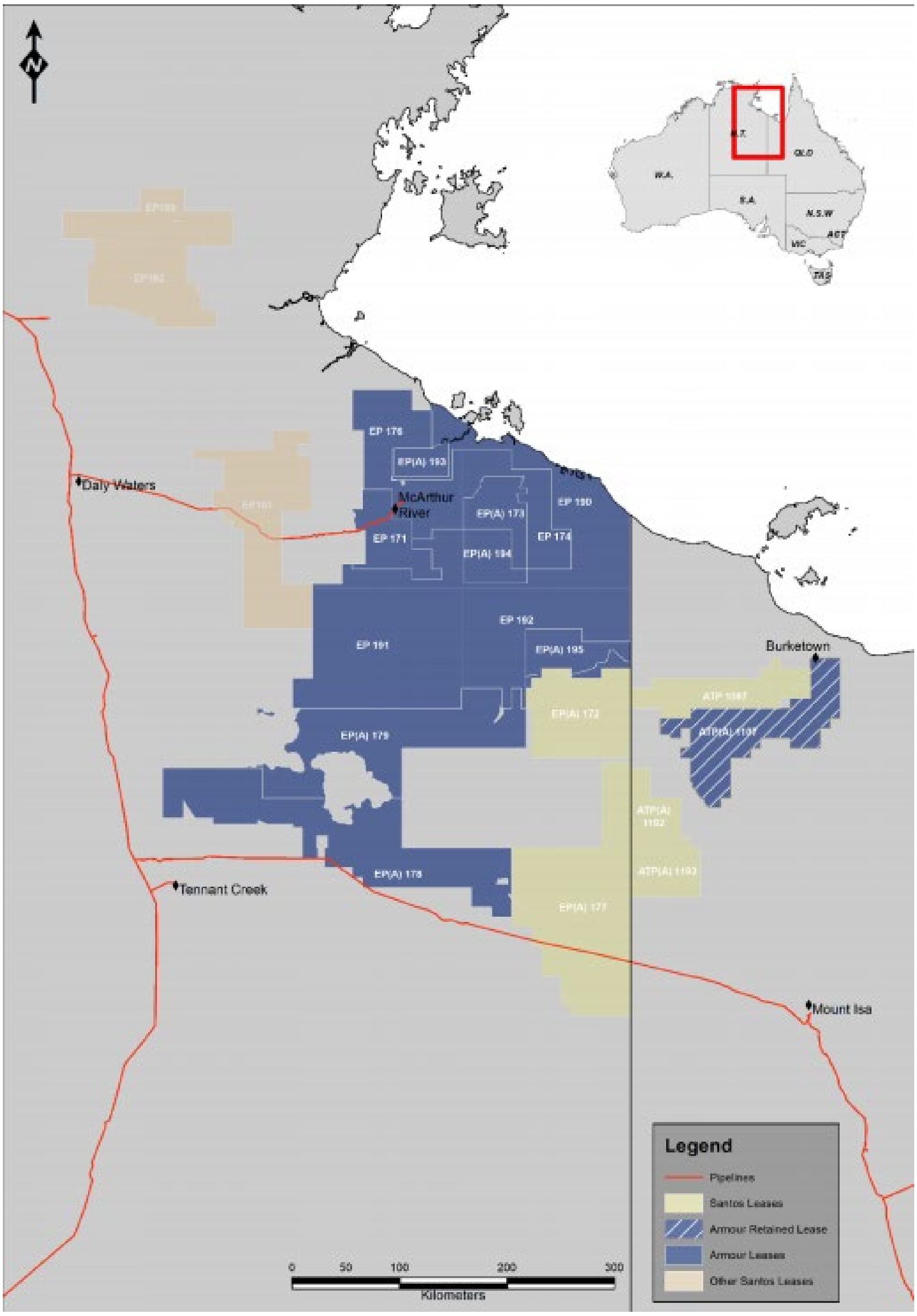

Figure 2 - Map showing the permits sold to Santos and ATP 1107

On 27 July 2020 Armour announced an agreement with Santos QNT Pty Ltd (Santos) to amend the South Nicholson Basin Farmin Agreement with an accelerated payment of $6,000,000, which was subject to the awarding of the permits under application in the area.

Armour subsequently announced on 22 December 2020 a further transaction on the South Nicholson Basin to sell to Santos its remaining 30% interest in a portion of its permit interests. From this transaction Armour received $12,164,000 in cash payments, with $3,000,000 received prior to half year-end upon execution of the term sheet. The balance was received on 4 February upon completion of customary conditions precedent. Armour has regained full ownership and operatorship of ATP 1107, which is currently under application. ATP 1107 covers 7,900 km^2 of the South Nicholson Basin Exploration Project.

Over the last 12-months, Armour has received $33,164,000 in cash proceeds in relation to the South Nicholson Basin Project while only reducing its acreage position by 35%.

Following these transactions, Armour will have made additional accelerated principal amortisation payments of $11,383,000 million on the Senior Secured Amortising Notes. After these accelerated payments have been applied, the Amortised Face Value of the Notes will be $793.63 per Note, down from the initial $1,000.

The Company believes that through these types of initiatives, capital can be realised which 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.

Strategy

Armour continues to progress its growth strategy targeting eight priorities for the next 12 months. These priorities are:

Focus	Outcome
1	Unlocking value for shareholders through demerger and **IPO of Northern Basin Assets**
2	Materially **reduce debt** and renegotiate terms
3	Extract value **through commercialisation of under-utilised**, operationally ready assets.
4	**Reduce the operating cost base** across the business and improve profitability
5	Generate **positive free cash flow** to cover all operating and corporate costs and capital for new investment
6	Build the **Surat and Cooper exploration pipeline** by end of 2021
7	**High grading of portfolio** – Consolidate, unitise and rationalise across the portfolio
8	Demonstrate tangible improvement in **HSE performance and culture** across the business

Operations Review

Surat Basin Assets

2020 Work Program

During the half year ended 31 December 2020, Armour executed a 3-well hydraulic stimulation campaign.

- **Horseshoe #4** was connected to the gathering network on 23 December 2020. Gas rates have steadily increased to 260 mscfd over the course of January as the well continues to slowly recover frac fluids from the Basal Rewan.
- **Horseshoe #2** was connected and commenced flowing back to the gathering network from 28 December 2020. The well has been consistently unloading frac fluid unassisted over the course of January at a gas rate of 160 mscfd and condensate.
- **Warroon #1** continues to consistently produce from the Rewan formation at around 400 mscfd. The well continues to additionally free flow condensate at approximately 15 BBLS per day. The Showgrounds formation remains isolated while the company continues to evaluate the reservoir performance of the Rewan.

As part of the 2020 Work Program, artificial lifts and pumps were installed on four existing wells. The installation of a reciprocating sucker rod pump in the well bores of Myall Creek #3 and Myall Creek #4 has allowed these wells to continue to flow to the gathering network below the critical rate required to lift liquids. From this, Armour receives the benefit of reliably pumped liquids to sales and enabling gas to flow to surface uninhibited by liquids in the tubing.

Plunger lift systems were installed on Sandy Creek #2 and Carbean #1. This system restores the natural gas decline on wells flowing below critical rate and loading up with liquids. Plunger lift systems reduce operational costs and allow for continuous remote optimisation. Both wells have responded inline with forecasted expectations.

Northern Territory

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.

As announced on 30 October 2020, Armour appointed Ocean Reach Advisory Pty Ltd, a specialist financial advisor whose focus is on farming out large-scale upstream oil and gas assets globally to assist Armour with securing a joint venture partner for the NT McArthur Basin Project. By finding the right JV partner, Armour is seeking to accelerate exploration of the highly-prospective McArthur Basin and generate working capital to further reduce debt and for development and exploration in the Surat and Cooper Basins.

As announced 3 March 2021, Armour proposes to demerge its Northern Basin Business to a new company, McArthur Oil & Gas. Through an IPO, McArthur Oil & Gas will seek to raise circa $60,000,000 - $65,000,000 proceeds to fund both the consideration for the Northern Basin Business from Armour together with McArthur Oil & Gas's forward work program. It is proposed that McArthur Oil & Gas would acquire the Northern Basin Business from Armour for consideration of $40,000,000 cash plus a minimum 33.3% retained interest by Armour shareholders through an in-specie share distribution. Armour intends to use the cash consideration received from McArthur Oil & Gas to retire some or all of its outstanding debt. See Armour's announcement on 3 March 2021 for further details.

Subsequent to the half year-end, the company submitted applications for Retention Licenses for Glyde, Cow Lagoon & Lamont Pass conventional gas discoveries, as well as commencing gas marketing for up to 9TJ per day. Potential sales gas production will commence as early as 2022.

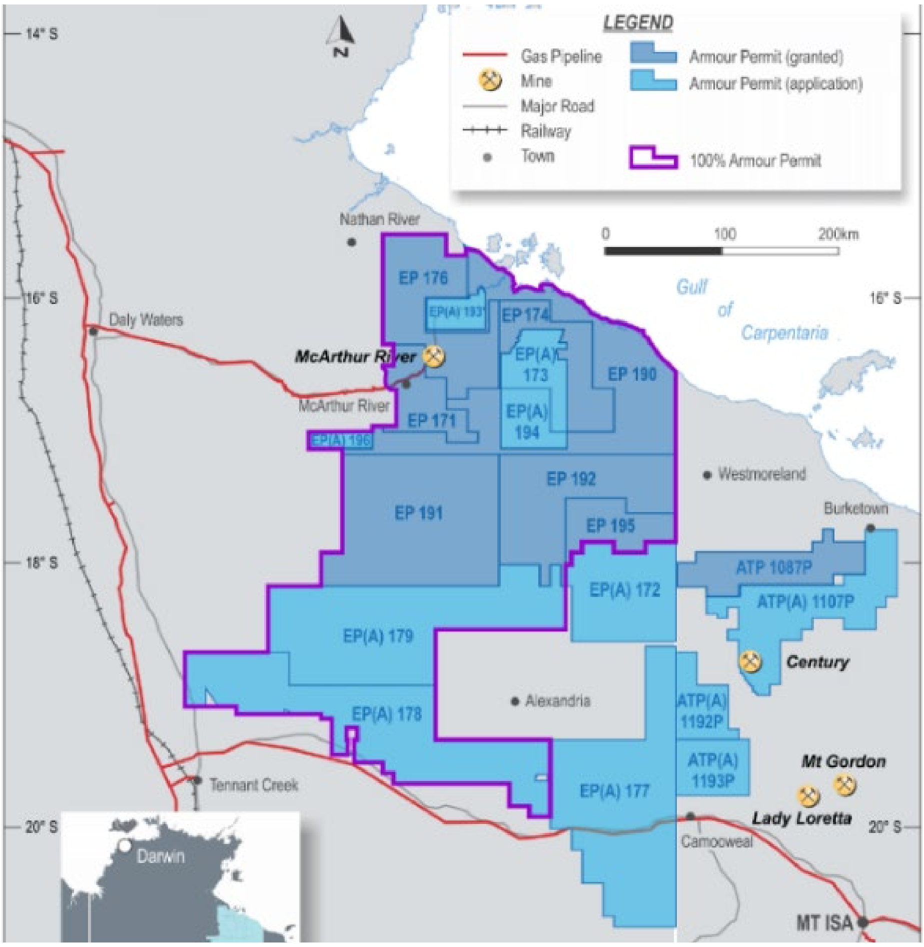

Figure 3 – Northern Territory acreage outlined in purple.

Cooper Eromanga Assets

Armour completed the transaction with Oilex on 16 October 2020. This South Australian Cooper Basin acreage makes Armour the holder of the 3rd largest net acreage position in the South Australian portion of the Basin with existing 3D seismic coverage.

Armour holds a 100% interest in two PELs 112 and PEL 444. Additionally, Armour has acquired a 100% interest in 27 Petroleum Retention Licences ("PRL's") by assuming the obligations of Oilex Ltd under existing arrangements between Oilex and Senex Energy Ltd. Refer to ASX Announcement "Completion of Share Sale and Purchase Agreement with Oilex Ltd" from 16 October 2020 for further information.

Armour will perform its own data and analysis, as well as re-evaluating the existing technical data with the aim to identify stratigraphic trends and development opportunities in this historically successful oil rich Western and Northern Flanks of the Cooper Basin in South Australia.

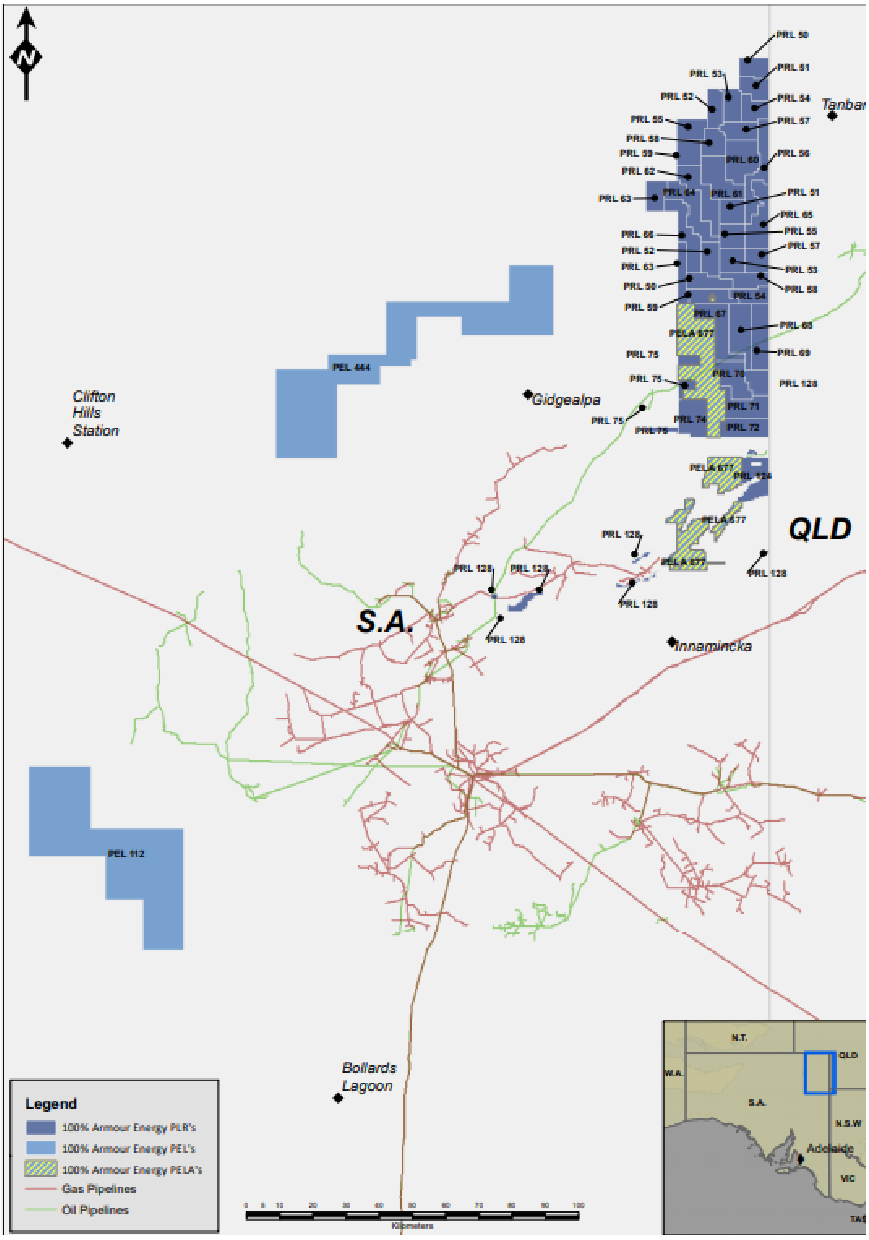

Figure 4 – Location map of the Cooper Eromanga assets

Corporate Activities

Capital Raising

On 18 September 2020, Armour advised that the previously announced capital raise had closed and due to significant demand from third-party investors in relation to the Company's fund raising, the Board was able to upsize the conditional placement component to a total of approximately $7,000,000, resulting in a combined total of approximately $15,000,000 capital raise.

For every two new shares issued under the capital raising program, the holder also received one attaching option exercisable at $0.05 and expiring 29 February 2024. These options are listed on the ASX with the ticker code AJQOA.

Corporate Bond Finance Facility

Through finalising its transactions with Santos QNT Pty Ltd (Santos) on the South Nicholson Basin Farmin Agreement and with Australia Pacific LNG Pty Ltd (APLNG) on Armour's interest in Murrungama, Armour accelerated $5,300,000 in principal amortisation payments on the Senior Securing Amortising Notes during the half year ended 31 December 2020. Armour made a further $6,082,000 of accelerated principal amortisation payments in February 2021 upon receiving the proceeds from the sale of a portion of the remaining 30% interests in the South Nicholson Basin.

Chief Financial Officer Appointed

On 1 December 2020, Armour announced that Ms Toni Hawkins would join as its new Chief Financial Officer (CFO). Ms Hawkins has over 20 years' experience in ASX listed companies with considerable knowledge in the energy and resources industry. Ms Hawkins joined Armour from Senex Energy Ltd, where she held the role of General Manager, Finance and Business Services.

Directors' Report

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 half-year ended 31 December 2020.

Directors

The following persons were Directors of Armour 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 Chairman
Roland Sleeman	Independent Non-Executive Chairman
Eytan Uliel	Independent Non-Executive Chairman

Principal activities

The principal activities of the Group are oil and gas exploration, development and production. There was no significant change in the nature of these activities.

In October 2020, Armour Energy Limited acquired CoEra Limited[1] from Oilex Ltd. CoEra Limited is the holding company of Cordillo Energy Pty Ltd and Holloman Petroleum Pty Ltd. Cordillo Energy Pty Ltd holds 27 Petroleum Retention Licences (PRLs) and 1 PELA (Petroleum Exploration Licence under Application) covering 2,990.42 km^2 and Holloman Petroleum Pty Ltd holds two PELs (Petroleum Exploration Licences) covering 2,251.97km^2 of the Cooper Eromanga area.

Review and results of operations

The profit for the Group after providing for income tax was $8,795,000 (31 December 2019: $7,047,000 loss).

A review of the operations and results of operations of Armour during the period is set out in the Operating and Financial Review, which is attached to and forms part of the Directors' report.

Significant changes in the state of affairs

There were no other significant changes in the state of the affairs of the Company during the half year ended 31 December 2020 that have not been detailed elsewhere in this report.

Events after the Reporting Date

Other than the below subsequent events, no other matter or circumstance has arisen since 31 December 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 4 February 2021, the Company received the final payment of $9,164,000 from the Sales and Purchase Agreement with Santos QNT Limited for the sale of Armour's 30% interest in various South Nicholas Basin tenements. As a result of the sale, Armour made a $6,082,000 accelerated amortisation payment on the Secured Amortising Notes in February 2021
- On 12 March 2021, the Company announced the completion of the sale of Ripple Resources to Auburn Resources.

[1] Later converted to a proprietary company

- The Company announced the proposed demerger of the Northern Basin Business. The Company's review of its assets shows that Armour has a strong presence in the McArthur Basin area with six granted exploration permits, 100% owned and operated, covering approximately 96,900 km^2. Armour proposes to demerge its Northern Basin Business to a new company, McArthur Oil & Gas. Through an IPO, McArthur Oil & Gas will seek to raise capital to fund both the consideration for the Northern Basin Business from Armour together with McArthur Oil & Gas's forward work program. It is proposed that McArthur Oil & Gas would acquire the Northern Basin Business from Armour for cash consideration plus a minimum 33.3% retained interest by Armour shareholders through an in-specie share distribution. Armour intends to use the cash consideration received from McArthur Oil & Gas to retire some or all of its outstanding debt.
- In March 2021, the Queensland Department of Environment and Science decreased their estimated rehabilitation cost for the Surat Basin Project by $1,146,000. As a result, Armour will reduce the value of bank guarantees provided to the Queensland Government and reduce the amount under the financing facility with Tribeca.
- Subsequent to 31 December 2020, Armour has been in discussions in relation to proposed amendments to the terms of the Company's Senior Secured Amortising Notes (Notes) and expects to issue a Notice of Circulating Resolution with an attaching Explanatory Memorandum (Notice) to holders of the Notes to seek approval by way of a special resolution of Noteholders (the Special Resolution) to amend the Conditions of the Notes.

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 www.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 2001.

On behalf of the Directors

Stephen Bizzell
Director
15 March 2021

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

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

R M Swaby
Director

BDO Audit Pty Ltd

Brisbane, 15 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

		Consolidated	
Revenue	**Note**	**31 December 2020**	**31 December 2019**
		$'000	**$'000**
Revenue from contracts with customers	5	8,504	10,994
Cost of goods sold	6	(10,346)	(10,478)
Net gain on sale of assets	5	15,985	-
Gross profit		**14,143**	**516**
Other income	5	602	8
Interest revenue		62	77
Expenses			
General and administrative expenses	6	(2,575)	(2,967)
Exploration expenditure written off		-	(520)
Finance costs		(3,271)	(3,545)
Share based payments		(165)	(213)
Profit / (Loss) before income tax expense		**8,796**	**(6,644)**
Income tax expense		(257)	(403)
Profit/ (Loss) after income tax expense for the half-year attributable to the owners of Armour Energy Limited		**8,539**	**(7,047)**
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		-	(1,487)
Income tax on items that may be reclassified to profit or loss		-	446
Other comprehensive income for the half-year, net of tax		-	(1,041)
Total comprehensive income/ (loss) for the half-year attributable to the owners of Armour Energy Limited		**8,539**	**(8,088)**
		Cents	**Cents**
Basic profit/ (loss) per share	7	0.9	(1.3)
Diluted profit/ (loss) per share	7	0.9	(1.3)

Consolidated Statement of Financial Position

	Note	Consolidated 31 December 2020	30 June 2020
Assets		**$'000**	**$'000**
Current assets			
Cash and cash equivalents		5,816	3,245
Trade and other receivables	8	11,123	2,016
Inventories	9	2,399	2,588
Other current assets		1,081	869
		20,419	8,718
Assets held for sale		-	44
Total current assets		20,419	8,762
Non-current assets			
Intangibles		226	225
Exploration and evaluation assets	10	30,895	35,209
Oil and gas assets	11	64,830	58,333
Other financial assets	12	9,738	9,197
Right-of-use assets	13	774	216
Property, plant and equipment		36	35
Total non-current assets		106,499	103,215
Total assets		**126,918**	**111,977**
Liabilities			
Current liabilities			
Trade and other payables	14	9,089	6,606
Lease liabilities	15	221	190
Employee benefits	16	408	401
Borrowings	17	13,952	11,714
Deferred consideration		-	1,000
Total current liabilities		23,670	19,911
Non-current liabilities			
Borrowings	18	34,125	43,123
Lease liabilities	15	513	33
Employee benefits	16	31	49
Provision for restoration and abandonment	19	6,688	6,688
Total non-current liabilities		41,357	49,893
Total liabilities		**65,027**	**69,804**
Net assets		**61,891**	**42,173**
Equity			
Issued Capital	20	125,470	114,311
Reserves	21	2,466	2,446
Accumulated Losses		(66,045)	(74,584)
Total equity		**61,891**	**42,173**

Consolidated Statement of Cashflows

		Consolidated	
		31 December 2020	31 December 2019
Cash flows from operating activities	**Note**	**$'000**	**$'000**
Receipts from customers (inclusive of GST)		9,436	13,070
Payments to suppliers and employees (inclusive of GST)		(6,559)	(6,184)
Payments for production		(6,139)	(10,882)
Interest received		98	76
Interest paid on lease liability		(20)	(11)
Other Interest paid		(2,408)	(3,919)
Other income		452	8
Net cash used in operating activities		**(5,140)**	**(7,842)**
Cash flows from investing activities			
Refund/(payments) for security deposits		(461)	255
Payments for property, plant, and equipment		(21)	-
Payments for oil and gas assets		(6,153)	(9,486)
Payments for exploration and evaluation		(545)	(129)
Payments for acquisition of exploration and evaluation assets	23	(187)	-
Grant funds received in relation to oil and gas assets		-	1,979
Proceeds from sale of exploration assets	5, 10	12,500	15,000
Net cash from investing activities		**5,133**	**7,619**
Cash flows from financing activities			
Proceeds from issue of shares	20	10,239	4,000
Repayment of right of use asset principal		(121)	(103)
Repayment of borrowings	17, 18	(7,500)	--
Transaction costs on the issue of shares and notes		(41)	(264)
Net cash from financing activities		**2,557**	**3,633**
Net increase in cash and cash equivalents		2,570	3,410
Cash and cash equivalents at the beginning of the reporting period		3,246	9,225
Cash and cash equivalents at the end of the reporting period		**5,816**	**12,635**

Consolidated Statement of Changes in Equity

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	114,311	2,446	(74,584)	42,173
Profit after income tax expense	-	-	8,539	8,539
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income			8,539	8,539
Transactions with owners in their capacity as owners:				
Shares issued during the year	11,560	-	-	11,560
Share issue costs	(803)	-	-	(803)
Recognition of deferred tax assets relating to share issue costs	257	-	-	257
Share-based payments	145	20	-	165
Balance at 31 December 2020	**125,470**	**2,466**	**(66,045)**	**61,891**

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2019	106,539	3,268	(65,012)	44,795
Loss after income tax expense	-	-	(7,047)	(7,047)
Other comprehensive income, net of tax	-	(1,041)	-	(1,041)
Total comprehensive loss	-	(1,041)	(7,047)	(8,088)
Transactions with owners in their capacity as owners:				
Shares issued during the year	4,080	-	-	4,080
Share issue costs	(240)	-	-	(240)
Recognition of deferred tax assets relating to share issue costs	(44)	-	-	(44)
Share-based payments	-	213	-	213
Balance at 31 December 2019	**110,335**	**2,440**	**(72,059)**	**40,716**

Notes to the 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 15 March 2021. The Directors have the power to amend and reissue the financial statements.

Note 2. 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 six-months, resulting in $8,504,000 of revenue. 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 half-year ended 31 December 2020, the Group generated a consolidated net profit before tax of $8,796,000 and incurred operating cash outflows of $5,261,000. As at 31 December 2020, the Group had cash and cash equivalents of $5,816,000, net current liability of $3,251,000 and net assets of $61,891,000.

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 continuing to focus on a cash reduction in all overheads including contractor hours and rates, consultants, administration costs and office rent. Armour has a target of reducing overall costs by the end of the calendar year. Efficiencies are also being sought throughout the business to provide longer-term savings.

Debt Reduction and Covenant Compliance

Armour has been compliant with their covenants since inception to 31 December 2020.

Once the $6,082,000 accelerated amortisation payment has been applied to Noteholders, the Senior Secured Amortising Notes will reduce to $37,567,000 and total debt to $44,327,000.

Liquidity Management

Directors consider it appropriate to prepare the financial statements on a going concern basis after having regard to the following matters within Armour's control:

- Equity raising or funding from alternative sources or selling assets (e.g. Farm-in arrangements);
- As announced on 04 February 2021, the Company received the final payment for the sale of interests in the South Nicholson Basin for $9,164,000;
- Armour has had strong interest from a party to farm into either one or both of its Surat and Cooper Basin assets;
- Further sell down of assets including Newstead Storage;
- Demerger of Northern Territory McArthur Basin assets with an IPO expected during the year with expected consideration for purchase of the assets from Armour to be around $40,000,000;
- Armour can undertake a capital raise under its existing placement capacity;
- Reducing capital spend to manage within the funding envelope; or
- Increasing cashflow earnings – increasing production through the 2021 work program; achieving cost-saving target; pursuing higher gas and other products sales prices through proactive business development and negotiations.

As stated above, there are a number of significantly progressed actions Armour can consider.

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.

Note 3. Significant accounting policies

These general-purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general-purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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.

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' of amounts in the Operating and Financial review, Directors' Report and financial statements. 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.

Note 4. Operating segments

Identification of reportable operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board in assessing performance and in determining the allocation of resources.

For the year ended 31 December 2020, the two main reporting segments, Exploration, Evaluation and Appraisal activities (EEA), and the Production and Development of petroleum products (Gas, Oil, LPG and Condensate) in the Surat Basin, Queensland (Surat), are consistent with the previous period.

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

The chief operating decision maker (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 half-year ended 31 December 2020 approximately 55% (2019: 74%) 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.

Operating segment information

Consolidated – 31 December 2020

	EEA	*Surat*	*Corporate*	*Total*
	$'000	*$'000*	*$'000*	*$'000*
Income				
Revenue from contracts with customers	-	8,504	-	8,504
Net gain on sale of assets	15,986	-	-	15,986
Other income	-	357	244	601
Total segment income	15,986	8,861	244	25,091
EBITDA	15,963	499	(2,435)	14,027
Depreciation and amortisation	-	(1,990)	(32)	(2,022)
Interest revenue	-	61	1	62
Finance costs	-	(962)	(2,309)	(3,271)
Profit/Loss before income tax expense	15,963	(2,392)	(4,775)	8,796
Income tax expense				(257)
Profit after income tax expense				8,539
Consolidated – 31 December 2020				
Assets				
Segment assets	42,575	82,512	-	125,087
Unallocated assets				1,831
Total assets				126,918
Liabilities				
Segment liabilities	3	20,845	-	20,848
Unallocated liabilities				44,179
Total liabilities				65,027

Other income includes the sale of Armour's interest in Murrungama and the South Nicholson Basin. See Note 5 for further details.

Consolidated – 31 December 2019

	EEA	*Surat*	*Corporate*	*Total*
	$'000	*$'000*	*$'000*	*$'000*
Revenue				
Revenue from contracts with customers	-	10,994	-	10,994
Total segment revenue	-	10,994	-	10,994
EBITDA	(520)	1,040	(4,236)	(3,716)
Depreciation and amortisation	-	(516)	(8)	(524)
Other income	-	-	8	8
Interest revenue	-	72	5	77
Finance costs	-	(1,015)	(1,474)	(2,489)
loss before income tax expense	(520)	(419)	(5,705)	(6,644)
Income tax expense				(403)
Loss after income tax expense				(7,047)

Consolidated – 30 June 2020

Assets				
Segment assets	35,209	73,692	-	108,901
Unallocated assets				3,076
Total assets				111,977
Liabilities				
Segment liabilities	1	18,446	-	18,447
Unallocated liabilities				51,356
Total liabilities				69,803

Note 5. Revenue

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	
	31 December 2020	31 December 2019
	$'000	$'000
Revenue from contracts with customers:		
Gas	6,547	8,131
LPG	714	769
Oil and Condensate	1,243	2,094
	8,504	10,994

Delays in the 2020 Work Program due to COVID-19 regulations resulted in lower than expected production. This was slightly offset with recovering realisable prices.

	Consolidated	
	31 December 2020	31 December 2019
	$'000	$'000
Net gain on sale of assets	15,985	-
Other income:		
Government grants	601	-
Other	1	8
	602	8

Murrungama Gas Project

Petroleum Lease no. 1084 (PL 1084), 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. In July 2019, the Queensland Department of Natural Resources, Mining and Energy (DNRME) awarded the exploration licence applied for as a joint tender of Armour and Australia Pacific LNG Pty Ltd (APLNG). This saw Armour gain a 10% non-operated interest.

Subsequently, Armour entered into a Sale and Purchase Agreement with APLNG for Armour's 10% interest for a total of $4,000,000. An initial deposit of $500,000 was received in June 2020 and the remaining $3,500,000 was received in August 2020. Armour held minimal cost on the balance sheet for this project.

See the ASX Announcement on 18 June 2020 for further details.

South Nicholson Basin Assets

In December 2019, a farmin agreement was executed between Armour and Santos QNT Limited (Santos) for Armour's South Nicholson Basin tenements. An initial cash payment of $15,000,000 was received from Santos in the 2020 financial year for 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.

On 27 July 2020, it was announced that the original farmin agreement between the Armour and Santo QNT Pty Ltd was amended to accelerate payments relating to the permit transfer process. This resulted in an immediate cash payment of $6,000,000 in August 2020.

In December 2020, the Group sold the remaining 30% interest in a portion of the South Nicholson Basin interests to Santos. As consideration, Armour received an initial cash payment of $3,000,000 in December 2020 and the balance of $9,164,000 in February 2021. Under this agreement Santos acquired 100% ownership of ATP 1087 of which Santos already held 70% interest and is operator. Santos also will acquire the application permit areas in Queensland ATP(A) 1192 and 1193 and the Northern Territory tenement EP(A) 172 and 177. Armour will retain full ownership and operatorship of ATP(A) 1107.

See the ASX announcement 22 December 2020.

Government Grants

The Group was eligible for certain government support in response to the COVID-19 pandemic such as JobKeeper and cash boosts from the Australian Taxation Office.

Note 6. Expenses by Nature

	Consolidated	
	31 December 2020	31 December 2019
	$'000	$'000
Profit/(Loss) before income tax includes the following specific expenses:		
Cost of sales		
Operating expenses	8,356	9,962
Oil and gas properties depreciation	1,990	516
Total cost of sales	10,346	10,478
General and administrative expenses		
Employee expenses not included in operating expenses	1,292	1,480
Management fee	228	228
Consultancy and legal costs	298	452
Insurance not included in operating expenses	140	195
Director fees	160	205
Depreciation and amortisation		
Office equipment	6	7
Amortisation of intangibles	25	-
Other expenses	426	400
Total general and administrative expenses	2,575	2,967

Note 7. Earnings per share

	Consolidated	
	31 December 2020	**31 December 2019**
	$'000	**$'000**
Profit/(Loss) after income tax attributable to the owners of Armour Energy Limited	8,539	(7,047)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic loss per share	993,625,081	550,012,463
Weighted average number of ordinary shares used in calculating diluted loss per share	993,625,081	550,012,463
	Cents	**Cents**
Basic profit/ (loss) per share	0.9	(1.3)
Diluted profit/ (loss) per share	0.9	(1.3)

Options and performance shares are not currently considered dilutive due to these potential ordinary shares being considered out of the money based on the average share price for the period.

Options and performance shares may become dilutive in the future.

Note 8. Trade and Other Receivables

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Trade receivables	1,569	1,734
Cash calls from JV parties	-	98
Cash call receivables – Lakes Oil NL	-	61
Other Receivables	9,554	123
	11,123	2,016

Other receivables includes $9,164,000 receivable on settlement for the sale of Armour's remaining 30% interest in ATP 1087, ATP 1192 and ATP 1193 (applications) and the Northern Territory tenements EP 172 and EP 177, which are also in the application phase. This was received 4 February 2021.

Other receivables also include GST receivable.

Note 9. Inventories

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Gas	248	315
Oil and Condensate	52	44
LPG	10	6
Materials & Consumables	2,089	2,223
	2,399	2,588

Inventories are initially recognised at cost and subsequently, recognised at the lower of cost and net realisable value. Each category of inventory was assessed, and the amounts recognised at 31 December 2020 represent the net realisable value.

Note 10. Non-current assets - Exploration and evaluation assets

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Exploration and evaluation assets	38,406	42,720
Less: Accumulated impairment	(7,511)	(7,511)
	30,895	35,209

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Movements in carrying amounts		
Balance at the beginning of the year	35,209	49,277
Additions	838	2,270
Additions acquired with CoEra Pty Ltd[1]	906	-
Government grants relating to Exploration and Evaluation assets	-	(617)
Farm-in agreement proceeds[2]	-	(15,000)
Disposal[2]	(6,058)	-
Provision for impairment	-	(721)
	30,895	35,209

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Movements in the provision for impairment amounts		
Balance at the beginning of the year	(7,511)	(6,790)
Provisions raised	-	(721)
	(7,511)	(7,511)

[1]**Cooper Basin Assets**

The Cooper Basin assets include a substantial footprint of exploration licences on the oil rich Western and Northern Flanks of the Cooper Basin. The Basin is one of Australia's most prolific producing oil and gas province, which historically has a high exploration success rate and low-cost development pathways.

See Note 22 for further details on how this asset was acquired.

[2]South Nicholson Basin

In December 2019, a farmin agreement was executed between Armour and Santos QNT Limited (Santos) for 70% of Armour's South Nicholson Basin tenements, ATP1087, ATP1107, ATP1192 and ATP1193 (applications), and the Northern Territory tenements EP172 and EP177, both of which are also in the application phase. An initial $15,000,000 was received as part of the farmin agreement.

In August 2020, the Company entered into an agreement with Santos to amend the South Nicholson Basin farmin agreement, resulting in an immediate cash payment of $6,000,000 as an acceleration of future contingent permit transfer payments.

In December 2020, Armour entered another agreement with Santos to sell its remaining 30% legal and beneficial interest in ATP 1087, ATP(A)1192, ATP(A)1193, EP(A)172 and EP(A)177, and retain 100% of ATP 1107, for an additional total circa $12,164,000. A $3,000,000 non-refundable deposit was paid in December 2020 with the balance being paid upon completion of customary conditions precedent.

The disposal represents the net cost remaining of these abovementioned assets after considering the R&D Exploration Grant received from the government in relation to ATP 1087 and the $15,000,000 cash payment received for the original Farm-in Agreement made during the 2020 financial year.

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 Group carried out an impairment review of the Victorian exploration and evaluation assets when the moratorium started 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 $720,000 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 31 December 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".

Note 11. Non-current assets - Oil and gas assets

	Consolidated	
	31 December 2020 $'000	**30 June 2020 $'000**
Oil & gas assets - at cost	82,881	74,394
Less: Accumulated amortisation	(7,606)	(5,616)
	75,275	68,778
Less: R&D grants relating to Oil & gas assets	(4,389)	(4,389)
Less: GAP grants relating to Oil & gas assets	(6,056)	(6,056)
	(10,445)	(10,445)
	64,830	58,333

	Consolidated	
	31 December 2020 $'000	**30 June 2020 $'000**
Movements in carrying amounts		
Balance at the beginning of the year	58,333	42,344
Additions	8,487	21,322
Depreciation charge	(1,990)	(2,743)
Government Grants relating to Oil and Gas Assets	-	(2,590)
	64,830	58,333

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.

In assessing the recoverable amount of the Group's Oil and Gas Assets, the Surat Basin was considered a cash generating unit (CGU). Using industry standard forward commodity pricing, including the required development costs and using a discount rate of 12%, management concluded that no impairment is required for the reporting period 31 December 2020.

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 enabled 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.

Note 12. Non-current assets - Other financial assets

	Consolidated	
	31 December 2020	30 June 2020
	$'000	$'000
Financial assets at fair value through other comprehensive income	4,702	4,702
Less: cumulative fair value movement	(3,614)	(3,614)
	1,088	1,088
Financial assurances	7,319	6,778
Security deposits	1,331	1,331
	9,738	9,197

As part of the purchase of the Cooper Basin Assets, an additional $540,000 of financial assurances were accounted for consisting of $100,000 relating to the PELs in Holloman Petroleum Pty Ltd and $440,000 entered into by Armour on behalf Cordillo Energy Pty Ltd for the 27 Northern Fairway PRLs.

	Consolidated	
	31 December 2020	30 June 2020
	$'000	$'000
Movements in financial assets at fair value through Other Comprehensive Income		
Opening balance at 1 July	1,088	2,125
Additions	-	450
Fair Value adjustments through Other Comprehensive Income	-	(1,487)
	1,088	1,088

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

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.

Note 13. Non-current assets - right-of-use assets

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Motor vehicles - right-of-use	1,306	626
Less: Accumulated depreciation	(532)	(410)
	774	216

Note 14. Current liabilities - Trade and other payables

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Trade payables	4,358	3,548
Other payables	-	601
Other tax liabilities	115	24
GST payable	-	183
Accrued expenses	4,616	2,250
	9,089	6,606

Note 15. Current and non-current liabilities - lease liabilities

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Current Lease liability	221	190
Non-Current Lease liability	513	33
	734	223

Note 16. Current and non-current liabilities - Employee benefits

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Current Employee Benefits	408	401
Non-Current Employee Benefits	31	49
	439	450

Note 17. Current liabilities – Borrowings

	31 December 2020 $'000	30 June 2020 $'000
Tribeca Loan Facility	6,171	5,664
FIIG Corporate Bond	7,781	6,050
	13,952	11,714

Note 18. Non-current liabilities - Borrowings

Total secured liabilities

The total secured liabilities are as follows:

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Senior Secured Amortising Notes	35,399	45,100
Senior Secured Amortising Notes - issue costs	(1,274)	(1,977)
	34,125	43,123

The Group complied with all covenant requirements of the Tribeca loan facility and Senior Secured Amortising Notes during the reporting period ended 31 December 2020.

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Senior Secured Amortising Notes		
Movement in carrying amounts:		
Face value of Senior Secured Amortising Notes	43,650	51,150
Issue costs of Senior Secured Amortising Notes	(2,351)	(2,351)
Amortisation of Senior Secured Amortising Notes costs	607	374
	41,906	49,173

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Tribeca loan facility		
Movement in carrying amounts		
Face value of loan facility	6,759	6,759
Issue costs of loan facility	(137)	(137)
Other equity securities - value of conversion rights, net of issue costs	(2,893)	(2,893)
Amortisation of loan facility	2,379	1,886
Amortisation of issue costs	63	49
	6,171	5,664

Facility terms and security disclosures

Corporate bond facility

On 29 March 2019, Armour announced settlement of a new $55,000,000 Senior Secured Amortising Notes 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 Senior Secured Amortising 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 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.

During the half year ended 31 December 2020, Armour made unscheduled accelerated amortisation payments of $5,300,000.

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.

Note 19. Non-current liabilities - Provision for restoration and abandonment

	Consolidated	
	31 December 2020	**30 June 2020**
	$'000	**$'000**
Restoration and abandonment	6,688	6,688

Key judgement - provision for rehabilitation

The Group's restoration and abandonment obligations for the Surat Basin processing plant and associated exploration, development and production fields is treated as a non-current liability in accordance with AASB 137 - Provisions, Contingent Liabilities and Contingent Assets. For the provision recognised at 31 December 2020, the facts and circumstances do not suggest that the carrying amount of the provision has changed.

Note 20. Equity - Issued capital

Issued and paid up capital

			Consolidated	
	31 December 2020 Shares	30 June 2020 Shares	31 December 2020 $'000	30 June 2020 $'000
Ordinary shares - fully paid	1,269,471,493	778,083,327	132,714	121,154
Share Based Payments	5,843,536	1,164,384	213	68
Share issue costs	-	-	(9,803)	(9,000)
Recognition of deferred tax asset relating to share issue costs	-	-	2,346	2,089
	1,275,315,029	779,247,711	125,470	114,311

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 the reporting date.

Grant Date	*Expiry Date*	*Number*	*Exercise price*	*% vested*
29/03/2016	29/03/2021	2,550,000	$0.193	100.00%
29/03/2016	29/03/2021	2,550,000	$0.343	100.00%
29/03/2016	29/03/2021	1,650,000	$0.493	100.00%
31/07/2018	31/07/2021	41,000,000	$0.161	100.00%
01/10/2019	30/09/2023	40,000,000	$0.080	100.00%
17/12/2019	30/09/2023	8,000,000	$0.080	100.00%
23/06/2020	29/02/2024	31,166,497	$0.050	100.00%
30/06/2020	29/02/2024	7,018,341	$0.050	100.00%
17/09/2020	29/02/2024	2,000,000	$0.050	100.00%
12/08/2020	29/02/2024	9,424,831	$0.050	100.00%
24/08/2020	29/02/2024	16,894,150	$0.050	100.00%
17/09/2020	29/02/2024	33,929,524	$0.050	100.00%
01/10/2020	29/02/2024	85,138,026	$0.050	100.00%
01/10/2020	29/02/2024	59,025,859	$0.050	100.00%
19/10/2020	29/02/2024	63,791,938	$0.050	100.00%
19/10/2020	29/02/2024	24,019,471	$0.050	100.00%
22/12/2020	29/02/2024	66,778,341	$0.050	100.00%
		494,936,978		

Note 21. Equity - Reserves

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Financial assets at fair value through other comprehensive income reserve	(5,340)	(5,340)
Share-based payments option reserve	5,164	4,887
Performance shares reserve	6	6
Tribeca Loan Option Reserve	2,893	2,893
	2,723	2,446

Note 22. Asset Acquisitions

On 16 October 2020, Armour acquired 100% of the issued capital of CoEra Limited, an Australian company previously a fully owned subsidiary of Oilex Limited. CoEra's assets include a substantial footprint of exploration licences on the oil rich Western and Northern Flanks of the Cooper Basin. The Basin is one of Australia's most prolific producing oil and gas province, which historically has a high exploration success rate and low-cost development pathways. Armour issued 24,500,000 shares ($906,000) as consideration for the purchase. In accordance with AASB 3, this transaction has been treated as an asset acquisition. The following table shows the assets acquired and the purchase consideration at acquisition date.

	Fair Value $,000
Security deposits	79
Exploration Expenditure	827
Consideration Paid in Issued Shares for CoEra Limited	906

Cash Consideration was also paid for the following costs related to the asset acquisitions:

	$,000
Payment to reimburse Oilex of licence fees and applications	127
Exercising the option to purchase the remaining 20% interest in the PELs	60
Payment to reimburse Terra Nova for the Financial Assurance held with South Australia's DEM	21
Consideration Paid Cash for CoEra Limited	208

Subsequent to the purchase of CoEra Limited and its subsidiaries, Armour applied to have CoEra Limited converted to a proprietary company.

Note 23. Events after the reporting period

Other than the below subsequent events, no other matter or circumstance has arisen since 31 December 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 4 February 2021, the Company received the final payment of $9,164,000 from the Sales and Purchase Agreement with Santos QNT Limited for the sale of Armour's 30% interest in various South Nicholas Basin tenements. As a result of the sale, Armour made a $6,082,000 accelerated amortisation payment on the Secured Amortising Notes in February 2020
- On 12 March 2021, the Company announced the completion of the sale of Ripple Resources to Auburn Resources.
- The Company announced the proposed demerger of the Northern Basin Business. The Company's review of its assets shows that Armour has a strong presence in the McArthur Basin area with six granted exploration permits, 100% owned and operated, covering approximately 96,900 km^2. Armour proposes to demerge its Northern Basin Business to a new company, McArthur Oil & Gas. Through an IPO, McArthur Oil & Gas will seek to raise capital to fund both the consideration for the Northern Basin Business from Armour together with McArthur Oil & Gas's forward work program. It is proposed that McArthur Oil & Gas would acquire the Northern Basin Business from Armour for cash consideration plus a minimum 33.3% retained interest by Armour shareholders through an in-specie share distribution. Armour intends to use the cash consideration received from McArthur Oil & Gas to retire some or all of its outstanding debt.
- In March 2021, the Queensland Department of Environment and Science decreased their estimated rehabilitation cost for the Surat Basin Project by $1,146,000. As a result, Armour will reduce the value of bank guarantees provided to the Queensland Government and reduce the amount under the financing facility with Tribeca.
- Subsequent to 31 December 2020, Armour has been in discussions in relation to proposed amendments to the terms of the Company's Senior Secured Amortising Notes (Notes) and expects to issue a Notice of Circulating Resolution with an attaching Explanatory Memorandum (Notice) to holders of the Notes to seek approval by way of a special resolution of Noteholders (the Special Resolution) to amend the Conditions of the Notes.

Note 24. Accounting Policies

New and Revised Accounting Standards and Interpretations

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:

- Definition of a Business (Amendments to IFRS 3)
- Annual Improvements to IFRS Standards 2018–2020
- Interpretation 23 Uncertainty over Income Tax Treatments

These pronouncements 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.

Directors' Declaration
31 December 2020

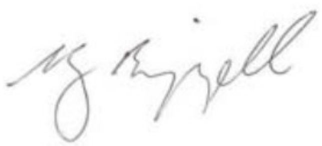
The Directors' of the Group declare that:

a) the interim financial statements and notes are in accordance with the Corporations Act 2001, including:
   i. give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half year ended on that date; and
   ii. comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other applicable accounting standards and the Corporations Regulations 2001 (Cth); and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Stephen Bizzell
Director

15 March 2021

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Armour Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Armour Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the half-year ended on that date; and

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

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

BDO Audit Pty Ltd

BDO

R M Swaby
Director

Brisbane, 15 March 2021