ASX Announcement

21 November 2016

Cornerstone Investor M.H Carnegie and Co in Agreement for up to $17.5m Investment as Part of a Capital Raising Program of up to $40m

Highlights:

- **Capital raising program of up to $40 million to fund the start-up of gas production from the Kincora project, the on-going development of the Kincora field assets, to refinance existing debt facilities and for general working capital purposes.**
- **Terms agreed with leading private equity & alternative asset manager, M.H. Carnegie & Co to be a cornerstone investor in the capital raising program subject to execution of definitive agreements.**
- **Capital raising program to include a placement of Convertible Notes in three tranches, an entitlement offer of ordinary shares to existing Armour shareholders, and an additional placement of ordinary shares pursuant to an Over Allotment Facility attached to the Entitlement Offer.**
- **Armour's largest shareholder DGR Global Ltd is strongly supporting the capital raising initiatives with, subject to any necessary shareholder approvals, commitments to subscribe for up to $10.4 million worth of securities ($9.4m of Convertible Notes and $1m of ordinary shares) in partial repayment of the DGR Global Ltd Bridging Finance Facility.**
- **Entities related to Armour Directors Nick Mather and Stephen Bizzell have also committed to subscribe for a minimum of $1 million each worth of securities in the raisings, subject to shareholder approval.**

The Directors of Armour Energy Limited (Armour; ASX:AJQ) are pleased to announce that Armour has agreed terms with leading private equity and alternative asset manager, M.H. Carnegie & Co Pty Ltd (**MH Carnegie**) for a staged investment of up to $17.5m worth of Convertible Notes (**Convertible Notes**) to be issued by Armour as part of a recapitalisation program Armour is currently implementing to fund the re-start of gas production from Armour's Kincora oil and gas Project on the Roma Shelf in Queensland and to refinance existing debt, creditors and working capital.

Convertible Note Issue

MH Carnegie will be the lead investor in a multi tranche Convertible Note issue by the Company to raise up to $35 million. The Convertible Note issue is being Lead Managed and arranged by Bizzell Capital Partners Pty Ltd. The arrangements with MH Carnegie are for investment by funds managed by it, and / or its nominees, and are subject to satisfaction of a number of conditions including the entering into of further definitive documentation.

M.H. Carnegie & Co is a leading venture capital, private equity and alternative asset manager based in Sydney Australia, established by Mark Carnegie in 2010. M.H. Carnegie & Co manages direct investments on behalf of institutional, wholesale and high net worth investors with approximately A$500 million in committed capital across several funds, including the Carnegie Private Opportunities Funds 1 and 2, the Carnegie Innovation Funds 1 and 2 and the Australian Pub Fund.

Under the agreed terms, the MH Carnegie Convertible Notes subscription may total up to $17.5 million and will be subscribed for in several tranches:

- An initial tranche of $2.5 million upon execution of definitive agreements;
- A further tranche of $5.0 million upon satisfaction of certain further conditions including pipeline access agreements and recommissioning milestones; and
- A further optional tranche of up to $10.0 million (Armour may restrict MH Carnegie's additional investment in this tranche to $5.0 million in certain circumstances).

The principal terms of the Convertible Notes to be issued by Armour are as follows:

Issue Amount:	Up to $35 million
Issue Price:	Face value of $0.11 per Convertible Note
Interest Rate:	15% per annum
Interest Payments:	Interest paid half yearly in arrears and the interest may be paid in certain circumstances at Armour's election by the issue of further Convertible Notes
Maturity Date:	30 September 2019
Conversion Terms:	Convertible at any time at the Convertible Note holder's election into one ordinary share in Armour subject to usual adjustment mechanisms in certain circumstances
Security:	The Convertible Notes will be secured over all assets of Armour and will have equal ranking security proportionally with the existing DGR Global Ltd Bridging Finance Facility

Further details of the terms of issue of the Convertible Notes are contained in the attached Appendix A.

Subject to execution of definitive agreements, the initial tranche of the MH Carnegie subscription is targeted to close on or before 30 November 2016. M.H Carnegie will have a right to early redemption of the funds they have subscribed for Convertible Notes in the event certain conditions are subsequently not met or are not waived by it up until shareholder approvals are obtained.

Armour's largest shareholder DGR Global Limited has committed to subscribe for $9.4 million worth of Convertible Notes, subject to receipt of shareholder approval, in part repayment of the DGR Global Bridging Finance Facility.

Also as part of the Convertible Note issue, and as a condition of the MH Carnegie investment, entities associated with Armour Directors Nick Mather and Stephen Bizzell will each subscribe for a minimum of $500,000 worth of Convertible Notes (as part of the $1 million each commitment to the capital raisings), subject to receipt of shareholder approvals to be obtained at Armour's upcoming AGM.

Pro-rata Entitlement Offer & Over Allotment Facility

As part of the capital raising initiatives, Armour will also undertake a pro-rata non-renounceable entitlement offer of ordinary shares to existing shareholders on a 1 for 6 entitlement basis at an issue price of 7.6c per share to raise approximately $4.05 million (Entitlement Offer).

The Entitlement Offer is to be fully underwritten by Bizzell Capital Partners Pty Ltd, an entity associated with Armour Director Stephen Bizzell.

Armour's largest shareholder, DGR Global Ltd intends to subscribe for up to $1 million in the Entitlement Offer, pursuant to making a firm commitment to subscribe for its pro-rata entitlement and by making a further sub-underwriting commitment. This subscription amount is expected to be via the conversion of the debt owing to DGR Global under its DGR Global Bridging Finance Facility. Armour's Chairman, Nick Mather will also be sub-underwriting part of the Entitlement Offer.

There will also be, separate and distinct from the Entitlement Offer, an overallotment facility available to sophisticated and professional investors who are sub-underwriters of the Entitlement Offer (**Overallotment Facility**). The Overallotment Facility will seek to raise up to a further $1,000,000 (before costs). Approximately 13 million ordinary shares will be offered under the Overallotment Facility.

Further details of the proposed Entitlement Offer including the offer timetable will be announced separately shortly.

Use of Funds

The net proceeds from the issue of Convertible Notes, the Entitlement Offer and the Over Allotment Facility will be primarily used to fund Armour's on-going development of the Kincora field assets, payments to creditors, and general working capital.

In total the capital raising initiatives will provide up to $40m in funding to Armour, comprising:

	AUD$m
Tranche 1 notes MH Carnegie	2.50
Tranche 2 notes MH Carnegie	5.00
DGR debt conversion to notes	9.40
Director related note subscription	1.00
Entitlement Offer	4.05
Over Allotment Facility	1.00
Other Convertible Notes subscriptions	7.05
Sub-total	***30.0***
Optional additional MH Carnegie Notes issue	10.0
Total	***40.0***

The funds raised are intended to be applied as follows:

	AUD$m
Kincora field project for first gas	2.55
Kincora field project LPG & condensate	3.23
DGR debt facility repayment	13.00
Operating administration & costs	3.87
Creditors and working capital	6.10
Costs of Issue	1.25
Total	***30.0***

If Armour proceeds with the issue of the optional additional tranche of Convertible Notes to raise up to a further $10 million, the proceeds of this additional issue will be primarily utilised for further field development expenses and general working capital.

Over the next 12 months Armour expects to also benefit from additional revenues from gas and oil sales, which will be directed to additional production wells and other field work aimed at production enhancement.

Director Appointments

As part of MH Carnegie's Convertible Note investment, they have the right to nominate two Directors for appointment to the Board of Armour. One of their proposed nominees, subject to receipt of his consent to act, is expected to be Mr Matthew Beach, a Partner in MH Carnegie's private equity and alternative asset funds management business and the other nominee will be an independent Non-Executive Director. Further details will be provided of the proposed additional Director appointments in due course.

Summary

Roger Cressey, Acting CEO, commented: "We are very pleased that MH Carnegie has chosen to invest in Armour. MH Carnegie's focus and expertise is in the provision of expansion capital to some of Australia's most successful companies and we believe Armour has the potential to be another of those companies."

Armour's Executive Chairman, Mr Nick Mather, added: "With oil production recently commenced from the Emu Apple field and planning well progressed for the recommencement of gas production and the funding now being put in place to enable execution of the re-start work programs, Armour is well positioned to make a successful transition from an exploration to production company at a time of significant gas demand growth both domestically and internationally."

On behalf of the board
Karl Schlobohm
Company Secretary

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Appendix A: Convertible Note Terms

Issuer	Armour Energy Ltd ACN 141 198 414
Convertible Note Issue	Convertible Notes to be issued by the Issuer pursuant to the Convertible Note Trust Deed.
Purpose	To finance the re-start of oil and gas production from the Kincora Project, partial repayment of the DGR Global Bridging Facility, general working capital and costs of the issue.
Issue Price	Face Value of $0.11 per Convertible Note
Conversion	Each Note is convertible at any time at the holder's election into one ordinary share of the Issuer [ASX: AJQ]. For clarity, a Noteholder may exercise conversion rights in relation to only some, or all, of their Notes at any time.
Issue size	Up to 200 million Convertible Notes ($22,000,000) of which up to $9.4 million will be issued to DGR Global Ltd in part repayment of the DGR Global Bridging Facility. (**Tranche 1 Convertible Notes**) The Issuer will have the right to issue up to a further approx. 27.27 million Convertible Notes ($3,000,000), on the same terms. (**Tranche 2 Convertible Notes**) The Issuer may also issue up to a further approx. 90.91 million Convertible Notes ($10,000,000), on the same terms before 31 March 2017 (**Tranche 3 Convertible Notes**) The Issuer may also issue Convertible Notes in lieu of Interest (at the Issuer's election) pursuant to the terms below.
Placement Notes	Up to 80 million Convertible Notes (maximum able to be issued under ASX LR7.1 & 7.1A without shareholder approval)
Conditional Placement Notes	Up to approx. 238.18 million Convertible Notes to be issued subject to obtaining any necessary shareholder approvals. The Conditional Placement Notes will include those Notes to be issued to DGR Global and director related entities.
Term	Approximately 3 years
Maturity Date	30 September 2019

Security	Investors to be granted security over all assets of the Issuer in accordance with the terms of the Note Trust Deed, subject only to the terms of the Priority Deed.
Security Ranking	The Convertible Notes will have equal ranking security proportionally with the DGR Global Bridging Facility pursuant to the terms of the Priority Deed.
Status	The Notes are direct and secured debt obligations of the Company. Each Note ranks for payment in a Winding Up of the Company: (1) equally and proportionally with each Note and all Equal Ranking Obligations in accordance with the terms of the Priority Deed; and (2) ahead of all unsecured or subordinated debts of the Issuer and ordinary shareholders. In order to give effect to the ranking, in any Winding Up of the Issuer, the claims of Holders are limited to the extent necessary to ensure that Holders of the Notes and holders of any Equal Ranking Obligations receive payments on a pro-rata basis. The DGR Global Bridging Facility is the only permitted Equal Ranking Obligation.
DGR Global Bridging Facility	means the Bridging Facility Agreement between the Issuer as borrower, Armour Energy (Surat Basin) Pty Limited ACN 607 504 905, and DGR Global Ltd as lender, dated 20 November 2015, as amended from time to time.
Issue Date(s)	Placement Notes: 30 November 2016 (targeted first close) Conditional Placement Notes: various dates in the period from within 3 days of shareholder approval at 2016 AGM to 31 March 2017
Coupon Rate	Interest of 15% p.a, paid half yearly in arrears on the Interest Payment Dates. The interest paid on the first interest payment date of 31 March 2017 will be calculated for each tranche of notes issued for the period from when each tranche of convertible notes is issued to 31 March 2017 at the interest rate of 15% pa.
Interest Payment Dates	31 March 2017 30 September 2017 31 March 2018 30 September 2018 31 March 2019 30 September 2019

Issue of Notes in lieu of Interest	The Issuer may elect, at its discretion, to issue Notes (at the Issue Price and on the same terms and conditions as the Placement Notes) in lieu of any Interest due on an Interest Payment Date, and the issue of those Notes will be in full and final satisfaction of the Interest due and payable on that date. The number of Notes that will be issued will be so many Notes as is determined in accordance with the following formula: A = B/C Where: A = the number of Notes to be issued in lieu of Interest payable on any Interest Payment Date, B = the amount of Interest due on the relevant Interest Payment Date, and C = $0.11 (being the Issue Price/Face Value per Note).
Payment of Interest on Conversion	If a Holder elects to Convert Notes: (1) on a date being an Interest Payment Date, the Company will pay to the Holder an amount of Interest being: (A) all Interest owing on that Interest Payment Date; and (B) all accrued and unpaid Interest; (2) on a day that falls between Interest Payment Dates, then because interest is payable in arrears, on the next Interest Payment Date immediately following the relevant Conversion Date, the Company will pay to the Holder an amount of Interest calculated in accordance with the following formula: R = (I/180 x MP) Where R = the amount of Interest to be paid by the Company; I = the total amount of Interest which would have been payable to that Holder in respect of the relevant Notes on the Interest Payment Date following the Conversion Date, had the Notes not been Converted; and MP = the number of days commencing on the Interest Payment Date which immediately preceded the date of Conversion and ending on the Conversion Date.

Adjustments to Conversion Ratio	*Pro Rata Offer* If at any time prior to the earlier to occur of the Conversion, Redemption or Maturity Date of the Notes the Company makes a pro rata offer (excluding a bonus issue) to Shareholders, the Conversion Ratio will be adjusted using the formula as follows: $NR = \frac{OR + E[P - (S+O)]}{N+1}$ Where: NR = the new Conversion Ratio of the Notes. OR = the old Conversion Ratio of the Note prior to the pro rata offer. E = the number of shares into which one Note is convertible. P = average market price per share weighted by reference to volume of the underlying Shares during the 5 trading days ending on the day before the ex-rights date or ex-entitlements date. S = the subscription price of a share under the pro rata issue. O= the dividend due but not yet paid on the existing underlying shares (except those to be issued under the pro rata issue). N = the number of shares with rights or entitlements that must be held to receive a right to 1 new share. *Bonus Issue* If a bonus issue of shares is made by the Company, then the number of shares issued to each Holder on Conversion will be increased by the number of bonus shares that a Holder would have received if the Note had been exercised prior to the record date for the bonus issue and no change will be made to the Conversion Ratio. *Reorganisation of capital* The Company may only reorganise its capital: (1) in accordance with the Listing Rules; and

	(2) if, in respect of the Notes, the number of Notes or the Face Value, or both, is reorganised so that the Holders will not receive a benefit that Shareholders do not receive. (b) Unless the Listing Rules require otherwise, the Conversion Ratio must be adjusted as follows: (1) Reduction in capital If the issued capital of the Company is reduced, the entitlement of a Holder to convert its Notes to shares at the Conversion Ratio will be reduced in the same proportion and manner as the issued capital is so reduced (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the reduction of capital) but in all other respects the Conversion Rights will remain unchanged. (2) Consolidation of capital If the issued capital of the Company is consolidated, the entitlement of a Noteholder to convert its Notes to shares at the Conversion Ratio will be reduced in the same proportion and manner as the issued capital is so consolidated (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the consolidation of capital) but in all other respects the Conversion Rights will remain unchanged. (3) Subdivision of capital If the issued capital of the Company is subdivided, the entitlement of a Holder to convert its Notes to shares at the Conversion Ratio will be increased in the same proportion and manner as the issued capital is so subdivided (subject to any provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of the members of the Company approving the subdivision of capital) but in all other respects the Conversion Rights will remain unchanged.
Redemption	Repayment of Face Value and any unpaid interest at the Maturity Date.
Early Redemption Event	The Company may give a Redemption Notice in the event of a Takeover Event. Takeover Event means that if at any time on or before the Maturity Date, an off market bid, a market bid, scheme of arrangement, or offer or invitation is made to all holders of Ordinary Shares to purchase or otherwise acquire Ordinary Shares and the bid, scheme or offer becomes unconditional, and the offeror has at least 50% of the voting power (as defined by the Corporations Act) in the Company.

	Notwithstanding the issue of a Redemption Notice, a Holder may give a Conversion Notice (which may be expressed to be subject to Takeover Event completing) in respect of any of its Notes which are the subject of the Redemption Notice up to the before the relevant Redemption Date (or such later time as the Company may agree with the relevant Holder), and only Notes for which Conversion Notices have not been so given or are treated as having not been given will be Redeemed on the specified Redemption Date.
Events of Default	Customary events of default which are no less favourable than those under the DGR Global Bridging Facility (as amended), are to be incorporated in the formal transaction documents, including but not limited to payment, redemption or conversion breaches, cross defaults, suspension from trading for more than 10 days and insolvency events. While any Event of Default relating to a payment failure is subsisting, default interest at the Higher Interest Rate (as defined under the DGR Global Bridging Facility) will apply.
Negative Pledge	There shall be no increase in the Equal Ranking Obligation Debt beyond what is contemplated under this term sheet without Noteholder approval being obtained.
No Dividends	No dividends may be declared or paid whilst the Convertible Notes are on issue.
ASX Listing	The Convertible Notes will not be listed on ASX.
Investor Eligibility	The Notes are being offered to 'sophisticated investors', 'professional investors' (under the Corporations Act) and investors who are exempt to disclosure requirements.
Director Participation	Entities related to Armour directors Stephen Bizzell and Nicholas Mather intend to subscribe for Convertible Notes to the value of a minimum of $0.5m each in the Conditional Placement (subject to receipt of shareholder approvals).
Cleansing Notice	The Issuer must issue a cleansing notice within 30 days of conversion of any Convertible Notes.
Note Trustee	Perpetual Corporate Trust Limited