ARMOUR ENERGY LIMITED

ANNUAL REPORT 2014

ARMOUR ENERGY LIMITED
& CONTROLLED ENTITIES
ACN 141 198 414

CONTENTS

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CHAIRMAN'S REPORT

Dear Shareholder

As you will be aware, the Australian oil & gas exploration industry has been forced to weather some challenging times over the past twelve months, including State Government drilling and well-stimulation bans, aggressive lobbyist actions and poor stock market conditions. Despite these challenges, Armour has continued to advance its exploration and business strategies whilst re-basing the Company from a cost and operational perspective.

Armour continues to hold an extensive and provincial tenement position, 100% owned over several basins defining a provisional position in Northern Territory and Queensland, together with substantial interests over the onshore sector of Australia's most prolific oil and gas producing basin in Gippsland in Victoria.

Structurally, the domestic east-Australian market for gas continues to head towards a 2016-17 supply shortage. Sensitivities surrounding development of known gas deposits closer to populated east coast regions continued to play into Armour's strategy of holding a provincial position in a low-population region with anticipated access to domestic pipelines (via Mt Isa) or export markets (via the northern or eastern coasts). In this regard the Company will be seeking to continue to build on its agreement with the APA pipeline group to ultimately install gas pipelines to effect the delivery of up to 330 Petajoules per annum to Queensland customers and Gladstone based LNG producers. In addition, Armour is identifying local markets in the northern Australian region for over 100PJs per annum of domestic and industrial gas in the format of piped compressed or liquefied supply and export LNG potential for up to 330PJs per annum (6 mtpa) from the Gulf of Carpentaria.

Gas is the world's most compressible, transportable and politically and environmentally acceptable form of fossil energy and we believe that the urbanisation of half of the world's population over the next 30 years will continue to fuel a demand for gas that will outstrip supply.

From a technical perspective during the last year, Armour's pioneer Egilabria 2 lateral well in Queensland's South Nicholson Basin represented a landmark for the Australian oil and gas industry as the well was the first successful application of multi-stage, hydraulically stimulated, lateral well technology developed in North America to an Australian shale gas formation.

I would like to take this opportunity to acknowledge the efforts and dedication of my fellow Directors and the Company's former and current staff during a challenging period within the industry. I remain confident that the Company faces an exciting period ahead. Once again I wish to thank you, as Armour's Shareholders, for your support and faith in our ability to ultimately deliver on Armour's strategy to emerge as a significant Australian gas production company.

Yours sincerely

Nicholas Mather
Executive Chairman

REVIEW OF OPERATIONS

COMPANY STRATEGY

Armour Energy is focused on the discovery and development of world class gas and associated liquids resources in an extensive hydrocarbon province in northern Australia which was first discovered in the early 1990s. This region has only recently had its shale potential identified by Armour Energy. Today's business environment with strong domestic and global demand for gas, domestic gas prices trending towards LNG netback, combined with proven shale extraction technologies and world class personnel, provides the Company with an extraordinary opportunity to define and ultimately develop a major new gas province.

Armour Energy's permit areas in northern Australia, which are all 100% owned, are characterised by low population densities, cooperative stakeholders and a natural environment suited to the exploration and development of a major future hydrocarbon province.

The Company is focusing on the exploration of the McArthur, South Nicholson and Georgina Basins in the Northern Territory and Queensland, and in the onshore Gippsland Basin in Victoria, for gas and associated petroleum liquids.

Armour Energy will progress exploration of its 133,000 square kilometres (33 million acres) tenement area while maintaining a prudent approach to capital management, low-cost, high value work programs and partnering on appropriate terms. Exploration will focus on staged de-risking of large unconventional gas and liquids plays while pursuing early cash flow opportunities.

The experienced Board of the Company includes three past Directors of Arrow Energy. The Company's technical and commercial team includes a range of industry experts and seasoned professionals who have been selected to help transform Armour Energy into a significant gas exploration and development company.

HIGHLIGHTS

- **Queensland tenement ATP1087**
  - Two wells drilled:
    - Egilabria 2 vertical and lateral well - gas analysis shows high methane and very low CO2, and helium recorded up to 6% in isotube gas samples – flowed gas from hydraulic stimulation 137 metres thick Lawn Hill Shale.
    - Egilabria 4 vertical well – drilled successfully to 1,839 metres. Results proved presence of gas off structure and continuous gas play in the Lawn Hill Shale, whilst significant gas shows were encountered in the deeper Riversleigh Shale that extends across ATP 1087.
    - World class Total Organic Carbon (TOC) content in Lawn and Riversleigh Shales of up to 11%.
    - Confirmed gas desorption from Lawn and Riversleigh shale cuttings.
  - Airborne Geophysical Survey over 3,000 square kilometers was completed in Queensland with an aim to allow better structural mapping and increase conventional and unconventional prospective resources in ATP1087.
  - Significant Queensland Government Tenure Reforms Improved Armour's Tenement Value in Queensland with a 2 year extension to ATP1087 licence term granted.
- **Northern Territory tenements:**
  - Two wells drilled:
    - 2013 drilling campaign - Myrtle Basin 1 and Lamont Pass 3 drilled to test the Barney Creek Shale and the underlying prospective Coxco Dolomite formation.
    - Depth of the prospective oil window increased in the Barney Creek Formation from 350 to 780 metres based on Lamont Pass 3 oil shows.
  - Grant of EP191 and 192 in the Northern Territory – increasing Armour's granted tenement footprint in the Northern Territory by 86%.
  - Conventional Prospective Gas Resources in the Coxco Play increase ten-fold to earlier estimates following the successful drilling of Glyde 1.
- **Victoria (JV with Lakes Oil):**
  - Drilling of conventional well Otway-1 has been postponed until at least 2015 due to the Victorian Government's onshore drilling moratorium. The Company will continue to focus on its tenements in Northern Australia.
  - Farmin Rights exercised for PRL2 in the Gippsland Basin, Victoria.

QUEENSLAND TENEMENT ATP1087

EGILABRIA 2/ 2DW1 WELLS

The Egilabria 2 vertical well was spudded on 12 May 2013. The well is located within the Company's 100% owned Queensland tenement ATP 1087, as indicated in Figure 1.

The well was located and designed to drill vertically to the base of the Lawn Hill Shale, and to evaluate gas flows. The Lawn Hill Shale contains a 2P Prospective resource of 18.6 Trillion Cubic Feet (TCF) of high quality gas (MBA, 2011). The Egilabria 2 DW1 lateral well was drilled from the Egilabria 2 vertical well to establish a lateral section that targeted the Lawn Hill Shale.

A total of 567 metres of lateral drilling was drilled by early August as per plan into the gas rich Lawn Hill Shale but with higher than expected penetration rates both above and within the Lawn Hill Shale. During operations running back into the hole with a new drill bit, the Company encountered strong gas shows producing flares which burned in excess of 5 minutes and up to 3 metres long (refer Figure 2). Gas analyses showed predominantly methane with negligible carbon dioxide levels. Some helium (a valuable byproduct) was also detected. Egilabria 2 also intersected continuous gas shows in sediments from 700 metres down to the top of the Lawn Shale at 1640 metres. Zones above 1500 metres have not yet been hydraulically stimulated or flow tested. This will be included in Armour's future work program.

The Egilabria 2 well reached a total depth at 2102 metres, including the 567 metres of lateral, and was then cased in August, in preparation for subsequent hydraulic stimulation of the lateral section. The hydraulic stimulation of the Egilabria 2 DW1 lateral well was undertaken during the period from 31 August to 13 September 2013. A total of eight stages were originally targeted and twelve zones were hydraulically stimulated.
The majority of proppant was placed in the middle four stages covering the top 66 metres of the organic rich 137 metre thick Lawn Hill Shale. The historic 1991 Egilabria 1 well to the west recorded a 125 metre thick section of Lawn Hill Shale with highest gas noted (up to 8%) in this uppermost section.

The aim of the production test at Egilabria 2 was to prove the concept that horizontal well technology, together with hydraulic stimulation, can flow hydrocarbons to surface from the Lawn Shale formation. This aim was achieved and represents a landmark for the Australian oil and gas industry as the well is the first successful application of multi-stage, hydraulically stimulated, lateral well technology developed in North America to an Australian shale gas formation.

Following the onset of the wet season in November last year the well was closed in with about 45% of the stimulation fluids recovered. Since that time only monitoring of pressure and sampling of fluids and gas has taken place.

Since then the Company has continued to monitor pressure build-up, and to take samples of fluids and gas. This information is still being analysed and the Company is keeping its options open with regard to further work. Further work could be restricted to well monitoring only or more expenditure to clean-up and test the well more quickly. Any decision to incur more significant capital expenditure on the well at this time will be based on the incremental benefits anticipated from doing so versus the associated costs.

In addition to booking maiden contingent resources, which were directly related to results to date from Egilabria 2, the Company has also been able to establish:

1. That the Lawn shale is brittle and which intervals within the Lawn shale are best suited to fracture stimulations.
2. That the Lawn shale has a world-class Total Organic Carbon (TOC) content. TOC is the capacity of the source rock to generate hydrocarbons.
3. Gas production through an on-surface separator commenced after recovery of approximately 45% of the stimulation fluids.
4. That the Lawn Hill Formation produced gas at surface comprising a very high methane content, together with ethane, helium, other inert gases and very little CO_2 and other inert gases.

5. That hydrocarbons can be moved from the shale formation to surface, a key factor in early shale exploration.
6. That, at the location of Egilabria 2, the shale formation is somewhat over-pressured and that significantly higher pressures are expected further away from the fault line which exists nearby to Egilabria 2.
7. That the Lawn shale forms part of a homogeneous shale "fairway" (about 1,500 square kilometres).
8. How to best drill and complete future wells which will potentially yield very significant cost reductions.

Having established the above, the next steps are now a matter of further exploring and appraising the area by identifying the 'sweet spots' in the Lawn shale fairway and improving drilling, completion and stimulation techniques such that gas can be produced at commercial rates.

Egilabria 2 was the very first well to produce hydrocarbons in the Lawn shale formation. Whilst the results have been very encouraging it represents only the first step and a number of significant improvement opportunities have been identified that will help the Company achieve our goal to produce hydrocarbons at commercial rates.

During the flowback of stimulation fluids at Egilabria 2 DW1, the Lawn Hill Formation produced gas at surface comprised of a very high methane content, ethane, helium and very little CO_2 and other inert gases through the separator after recovering approximately 45% of the stimulation load. Efforts to further unload the well and understand the hydrocarbon production from the reservoir are continuing.

Third party independent certifier SRK Consulting estimates Contingent Resources relating to the Lawn Hill Shale Formation in Egilabria 2 DW1 of 364BCF 3C; 154BCF 2C; 33BCF 1C.

The Company has entered into a Heads of Agreement with APA to work towards transportation of up to 330 Petajoules (PJ) a year of gas in existing, upgraded and future APA pipeline network to undersupplied coastal Queensland and New South Wales markets (Figure 3).

NAME OF WELL	TYPE OF WELL	LOCATION OF WELL	DETAILS OF THE PERMIT	WORKING INTERSET IN THE WELL	THE NET PAY THICKNESS OF CONVENTIONAL RESOURCES, IF THE GROSS PAY THICKNESS IS REPORTED	FORMATION TYPE
Egilabria 2	vertical appraisal well	N-E of ATP 1087, QLD. Latitude -17.89, Longitude 139.15	Granted ATP 1087 in NW QLD. Area is 7,138 km^2	100%	n/a	Lawn Hill Formation (unconventional potential) - Shale
Egilabria 2DW1	lateral appraisal well	N-E of ATP 1087, QLD. Latitude -17.89, Longitude 139.15	Granted ATP 1087 in NW QLD. Area is 7,138km^2	100%	n/a	Lawn Hill Formation (unconventional potential) - Shale
Egilabria 4	vertical appraisal well	N-E of ATP 1087, QLD. Latitude -17.83, Longitude 139.21	Granted ATP 1087 in NW QLD. Area is 7,138 km^2	100%	n/a	Lawn Hill and Riversleigh Formations (unconventional potential) - Shales, as well as the basal Jurassic sands of the Carpentaria Basin

NAME OF WELL	DEPTH OF THE ZONE TESTED	TYPE OF THE TEST AND ITS DURATION	RECOVERED HYDROCARBON PHASE IN THE TEST	CHOKE SIZE, FLOW RATE, VOLUME OF HYDROCARBON PHASES, IF MEASURED	NUMBER OF FRACTURE STIMULATION STAGES, SIZE AND NATURE OF FRACTURE STIMULATION, IF APPLIED	ANY MATERIAL VOLUMES OF NON-HYDROCARBON GASES, SUCH AS C02, N2, H2S, S
Egilabria 2	n/a	n/a	n/a	n/a	n/a	Traces of helium, Negligible carbon dioxide.
Egilabria 2DW1	1580-2045m	Flow testing, long-term test, well is shut-in for pressure build-up.	Gas, hydraulic fracturing fluids	Production casing. Initial gas flows to surface and a flare of at least 2 feet were observed. Continuous gas separation during flow test. The well flowed back 45% of stimulation fluids at a rate of approximately 13 bbl/day.	A total of eight stages were originally targeted and twelve zones were hydraulically stimulated. The majority of proppant was placed in the middle four stages covering the top 66 metres of the organic rich 137 metre thick Lawn Hill Shale.	Gas samples taken from the separator during the flow bcak of Egiliabria-2 lateral were fully analysed and recorded C02 (2%), He (1%), and other inert gases (6.5%). Additionally from a different sampling method, several isotubes of gas taken while drilling contained up to 6% helium. [Gas content percentages are in mol%]
Egilabria 4	n/a	n/a	n/a	n/a	n/a	Flamable gas detected during drilling. No flow test of hydrocarbon gases.

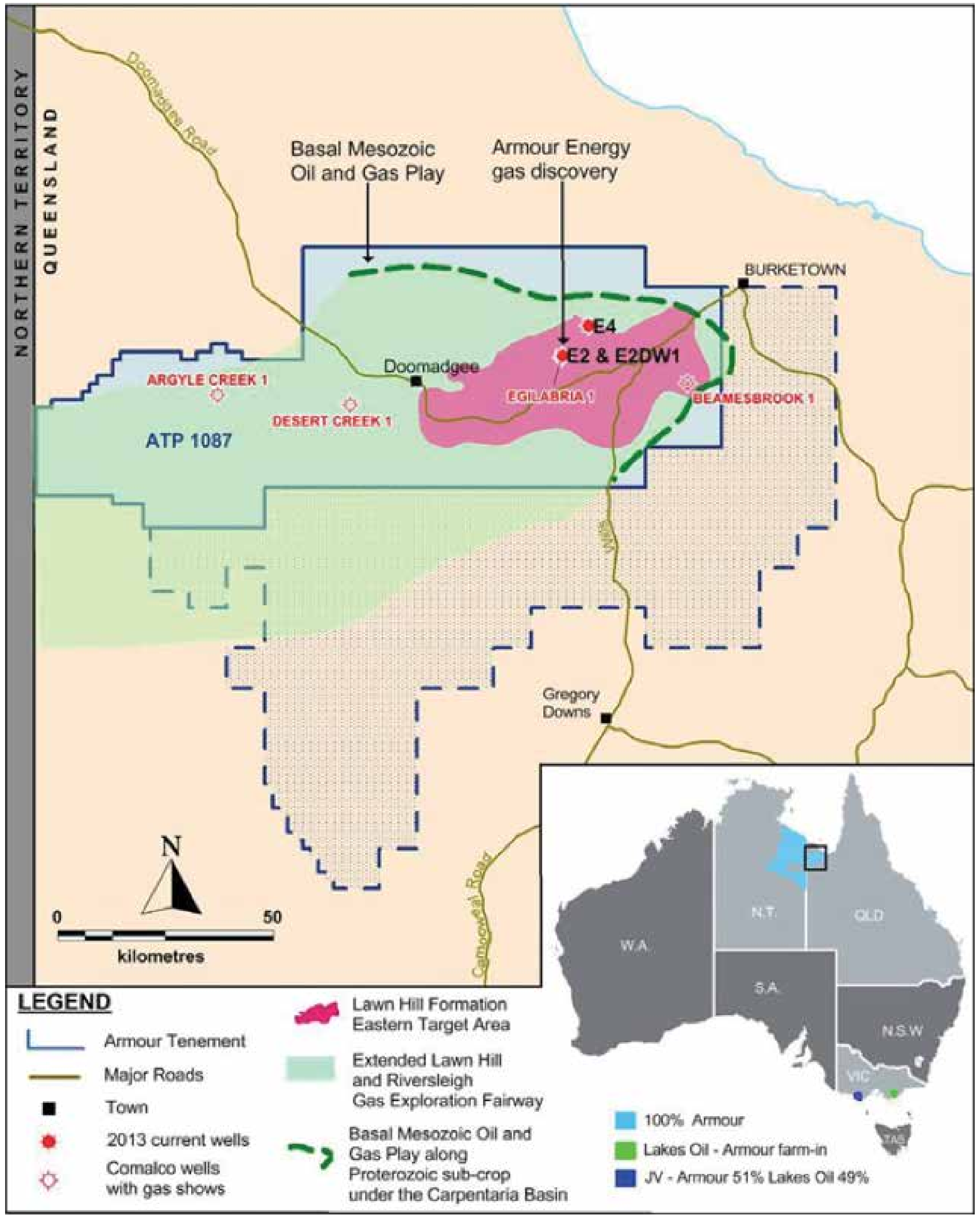

Figure 1: Location of Egilabria 2 and 4 well sites within ATP 1087, Queensland.

Figure 2: Photo of short duration flare at approximately 1500m.

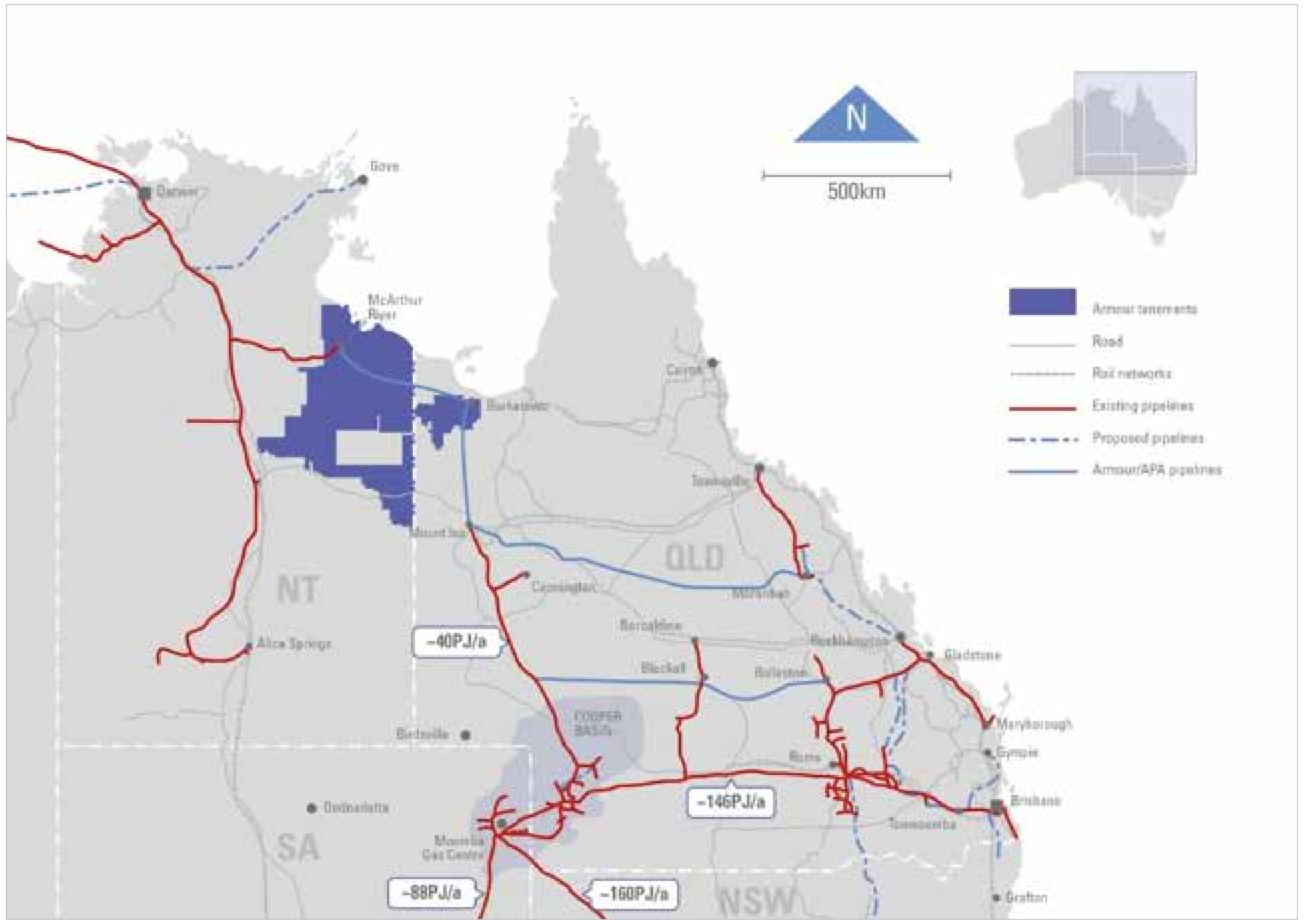

Figure 3: Existing, upgraded and potential future APA pipeline network

EGILABRIA 4 WELL

The Egilabria 4 well, in the Company's 100% owned ATP 1087 in Queensland, was spudded on 24 August 2013. The well is located as shown in Figure 1 and was designed to target multiple plays the Lawn Hill and Riversleigh Shales as well as the basal Jurassic sands of the Carpentaria Basin (Figure 4).

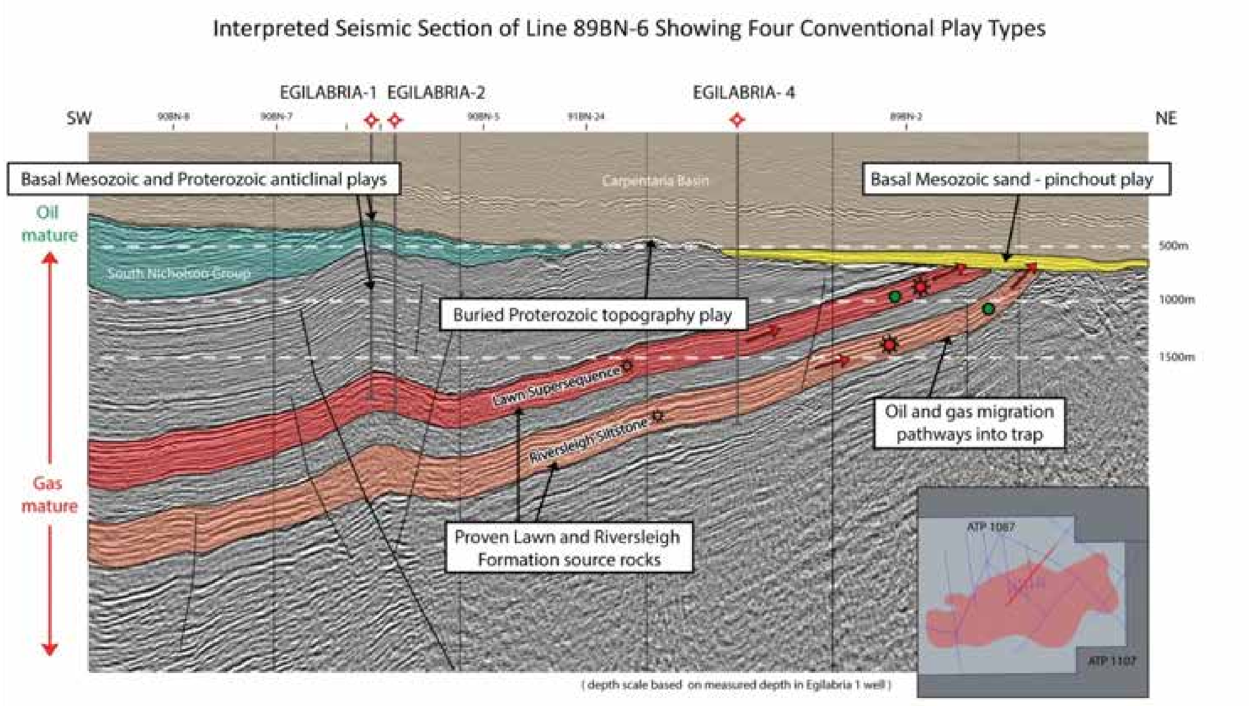

Figure 4: Interpreted seismic section 89BN 6 showing conceptual oil and gas play within Basal Mesozoic sand, sourced from Proterozoic Lawn Hill and Riversleigh source rocks

During drilling of the 8.5" hole section, the well encountered gas (up to 95 units or 2%) whilst tripping in and out of the hole at the base of the Mesozoic Carpentaria Basin section, underscoring the prospectivity of that sequence in the areas of structural closure. Future seismic programs are expected to identify structurally closed targets for drill testing in conjunction with the drill testing of the underlying unconventional Lawn Hill and Riversleigh Shale Formations.

Significant gas shows were also encountered in the Lawn Hill Shale, which was penetrated as expected between 1,060 and 1,200 metres. A stronger than expected buildup of pressure to 70psi was noted in a number of desorption canisters filled with cuttings from this interval. The purpose of using desorption canisters is to show that gas is being liberated from shale source rock cuttings taken from a tight reservoir that is yet to be stimulated.

The well continued on to penetrate the Riversleigh Shale Formation at a depth of 1,450 metres through to 1,700 metres. Significant gas shows were encountered in three separate zones of the Riversleigh Shale. Desorption canisters filled with cuttings from this interval at 1,495 metres developed pressure of 45psi after three days.

The results prove an additional unconventional shale gas target has been discovered off structure in the Riversleigh Shale Formation, as well as confirmation that the Lawn Hill Shale contains gas off structure.

The Egilabria 4 well reached TD on 22 September 2013 at 1,839 metres. The well was drilled on time and within budget, achieving all well objectives, and with good rates of penetration of up to 50m/hour with the use of air hammers.

WORLD CLASS TOTAL ORGANIC CONTENT (TOC) IN LAWN AND RIVERSLEIGH SHALES OF UP TO 11%

The conclusions of detailed source rock analysis (SRA) has been consistent with Armour's view that the Lawn and Riversleigh Formations within the Isa Superbasin of Northern Australia have amongst the highest Total Organic Carbon (TOC) content of any shale play in Australia.

Total Organic Carbon (TOC) is one of the key measures for a shale formation to be economically viable as it provides a measure for the capacity of the rock to generate hydrocarbons. A typical minimum TOC required for shale is 2%. World class TOCs, such as seen in the commercial Marcellus Shale in the USA, are in excess of 5%.

As can be seen in Figure 5, both the Lawn and Riversleigh shale formations show sweet spots well in excess of these numbers with TOCs recorded up to 11%. Armour is very encouraged by these results.

CONFIRMED GAS DESORPTION FROM LAWN & RIVERSLEIGH SHALE CUTTINGS

During air drilling operations at Egilabria 2 and Egilabria 4, several pressure sealed canisters were filled with Lawn and Riversleigh cuttings as an exercise to understand if the shales would desorb gas. After several days, the canisters were reported to have a range of pressure values as high as 100psi. The canistered gas samples were taken from the high TOC intervals in the Lawn and Riversleigh shales.

Gas samples were drawn off the Egilabria 4 canisters for compositional analysis. Average nitrogen and oxygen corrected measurements (a lab technique that attempts to remove atmospheric contamination from the sample values) contained 83% methane which is similar to the 90% methane gas sample recovered from the separator that was purged of atmospheric contamination prior to post-stimulation gas sampling.

During sidewall coring operations at Egilabria 4, a number of sidewall cores were canistered and gas samples from those underwent isotopic analysis. The results of which strongly suggests the gas is thermogenic in origin. This provides evidence that the gas is derived through burial and heating of the original organic material that is now the rich TOC found in these shales.

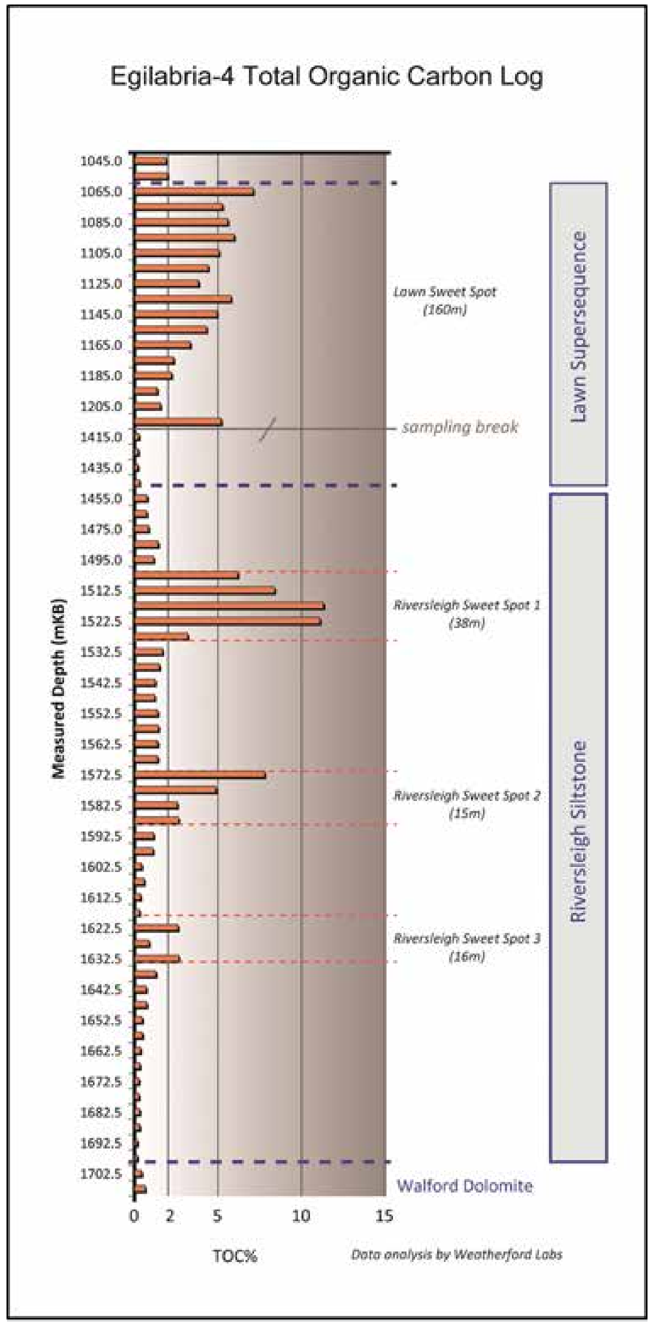

Figure 5: Egilabria 4 TOC Log

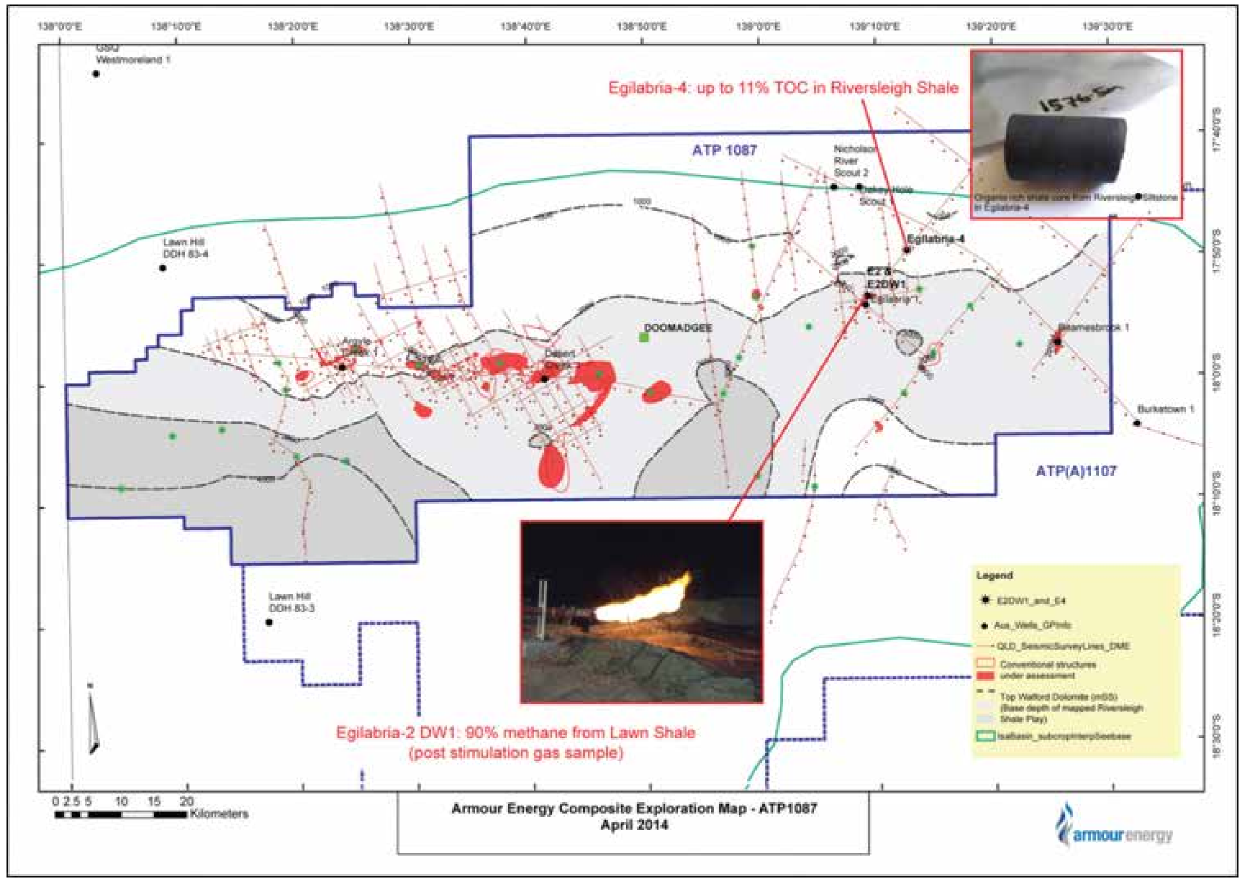

Figure 6: Map of ATP1087

AIRBORNE FALCON GEOPHYSICAL SURVEY OVER 3,000 SQUARE KILOMETRES COMPLETED IN ATP 1087

During the year, Armour contracted Fugro Airborne Surveys Pty Ltd to perform a 3,000 square kilometres airborne gravity magnetic digital terrain model survey across the western portion of ATP 1087 (Figure 7) in North Queensland.

The survey was designed to further define multiple play types including conventional, Lawn Hill Shale, and Riversleigh Shale targets with an aim to increase prospective resources within ATP 1087. This technology was successfully used by Armour in the Batten Trough, McArthur Basin, NT in early 2013.

The FALCON Airborne Gravity Gradiometer (AGG) collects the highest resolution gravity gradient data available and is a valuable tool in defining subsurface structure, generating basement models and overall basin architecture for oil and gas exploration. FALCON AGG data allows correlation of structures between 2D seismic lines, and is a powerful tool for seismic survey planning and optimising.

FALCON provides fast and efficient data acquisition and, with no requirement for ground access, has no ground impact (Figure 8). The Company believes this technology provides a strategic tool for high grading potential areas for further seismic, play and prospect analysis as well as defining drilling targets.

The processed dataset was interpreted by using integrated existing seismic interpretation, gravity and magnetic data, published literature and exploration well data. The results of the interpretation has significantly increased the resolution of large-scale tectonic features, especially away from and connecting the areas with 2D seismic data. The geometry of basement blocks and major faults have been interpreted, which will allow the Company to more precisely target ongoing exploration seismic and wells.

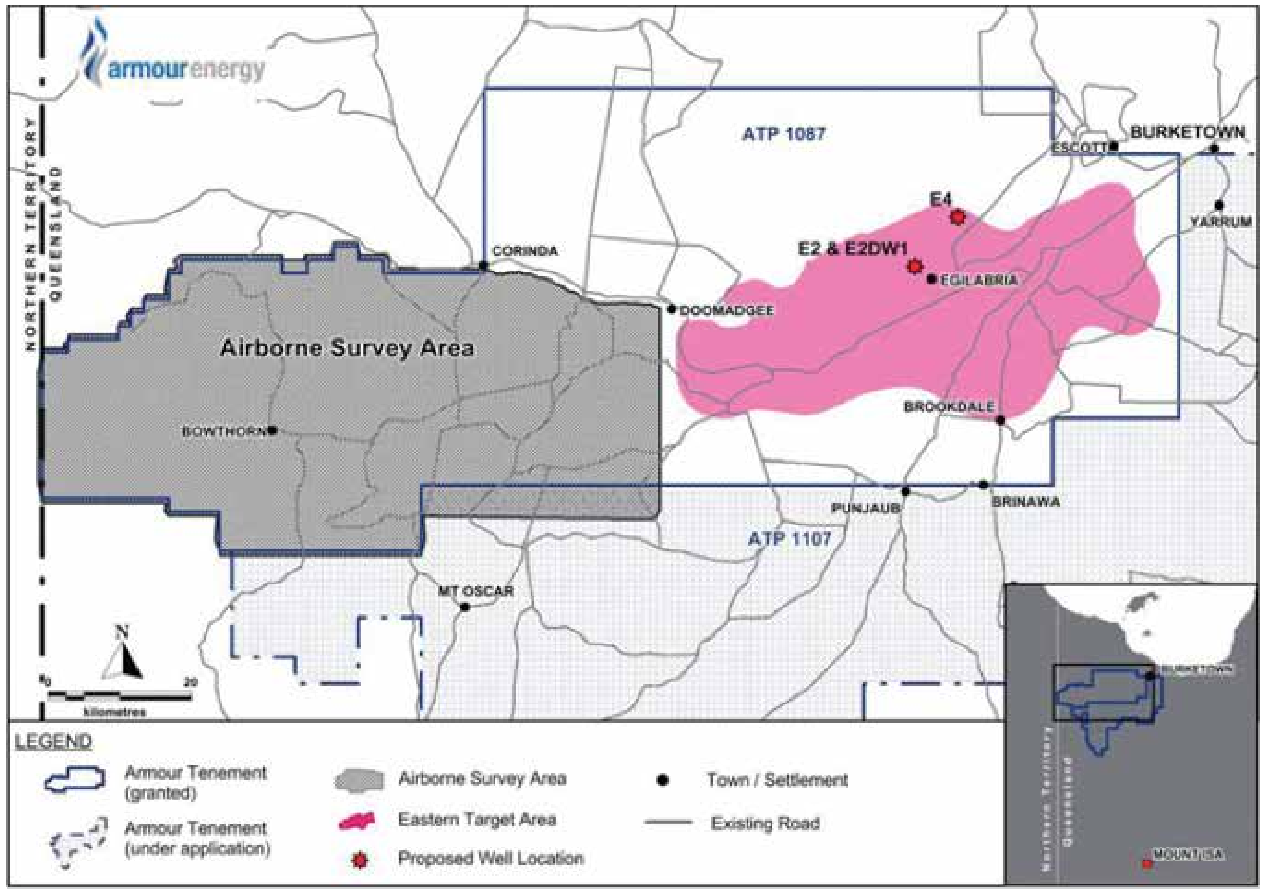

Figure 7: Egilabria well locations and completed area of airborne geophysical survey

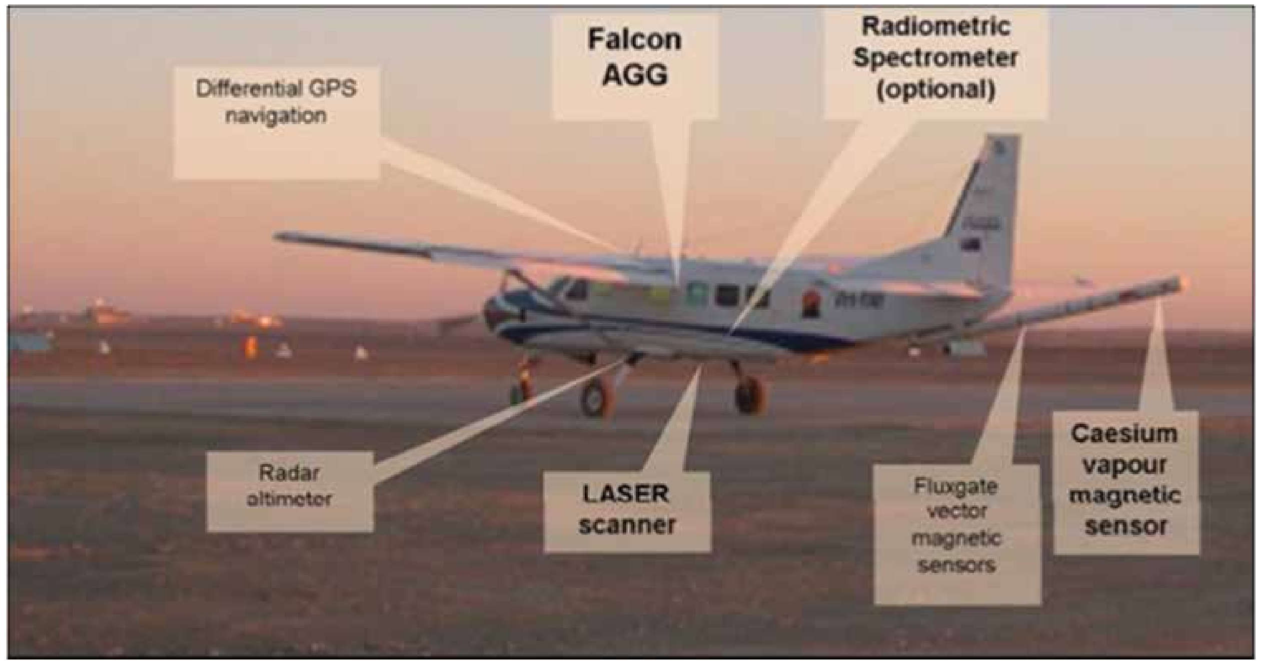

Figure 8: Fugro airborne surveys FALCON aircraft

SIGNIFICANT QUEENSLAND GOVERNMENT TENURE REFORMS IMPROVED ARMOUR'S TENEMENT VALUE IN QUEENSLAND WITH A 2 YEAR EXTENSION GRANTED TO ATP1087 LICENCE TERM GRANTED

In June 2014, Armour announced changes to the Petroleum and Gas (Production and Safety) Act 2004, as a result of the passing of the Land and Other Legislation Amendment Bill 2014 by the Queensland Government. These changes constitute a major reform and improve, by extension of Armour's tenures, the current strong foundation for Armour to further explore, appraise and develop its highly prospective tenements in Queensland - in a manner that benefits both the State of Queensland and the Company. Armour believes the changes demonstrate a strong commitment by the Queensland Government to ongoing growth in the State's petroleum exploration sector.

The changes are expected to significantly enhance Armour's plans to attract capital to its Queensland gas and oil exploration projects.

The two year extension to Armour's ATP1087 granted in September 2014, (and expected to be granted for ATP(a)1107) (see Figure 9) will allow the Company to optimise technical aspects of its exploration programme and allow more time for development planning, community consultation and environmental studies.

Under the amendments, mandatory relinquishment requirements applying to the tenements will also be deferred by two years. In addition, Armour will be able to enjoy more flexible relinquishment arrangements and or work programme requirements across the tenures it holds in Queensland.

Work programme amendments will be assessed on a case by case basis at the Minister's discretion. This will allow Armour to seek approval for an amended work programme proposal, on the basis that it meets the State's objective with regards to optimisation of the State's petroleum resources.

Following the amendments, in order to apply for a Petroleum Production Licence, Armour will now simply need to submit, with the application, a statement from a suitably qualified person confirming the presence of commercial quantities of oil and gas in combination with a development plan. These arrangements replace the previous requirement to demonstrate that at least 20% of the discovered resources were a proved or probable reserve. These amendments will allow production and development more rapidly and with less capital investment than under the previous regime.

REVIEW OF
OPERATIONS

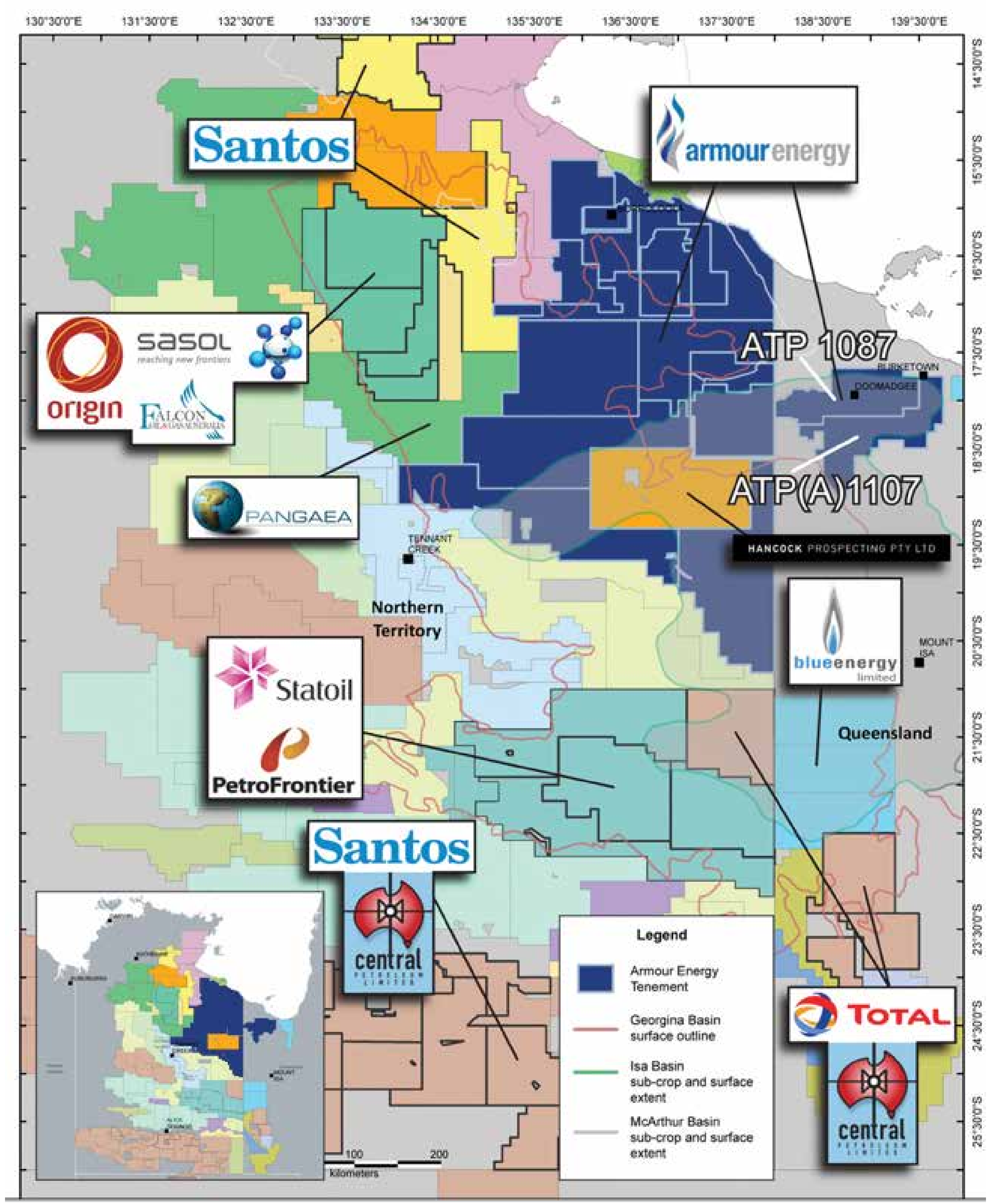

Figure 9: Map showing Armour tenements and regional tenement holders

NORTHERN TERRITORY TENEMENTS EP171, 174, 176, 190, 191, 192

ARMOUR ENERGY GRANTED EP191 AND EP192 IN THE NORTHERN TERRITORY

On 2 October 2013, the Company advised that it had been granted exploration tenements EP191 and EP192 over a combined area of 24,700 square kilometres (6.1 million acres) in the Northern Territory (Figure 10). This increased the Company's granted Northern Territory tenement footprint by 86%.

The granting of EP191 and EP192 will allow Armour to extend its exploration program into the southern portion of the McArthur Basin and east towards the Isa Superbasin in ATP 1087, Queensland.

Ongoing studies and reviewed core hole data have identified additional shale source rock prospectivity in the Wollogorang and McDermott Formations of the Tawallah Group in the newly granted tenements.

Live oil was reported within the McDermott Formation in the GSD7 well drilled by BHP in northern EP191 in 1995. The oil was described as coming from carbonate veining within evaporitic dolostone and dolomitic mudstone between 550 and 620 metres depth.

The recognition of hydrocarbon generation from these formations demonstrates the potential for deeper hydrocarbon accumulations below the Barney Creek Shale in EP171 and EP176, also held by Armour.

Additionally, Armour believes the Wollogorang and McDermott Formations are key exploration targets in EP's 174, 190, 191 and 192. These 100% owned Armour tenements contain a number of large surface expressed basins, synclines and anticlines based on regional magnetics.

In 2014, the Company commenced a series of feasibility and regional studies that will examine the hydrocarbon potential of the Wollogorang and McDermott Formations to generate leads and prospects and to high grade areas for enhanced geophysical survey acquisition.

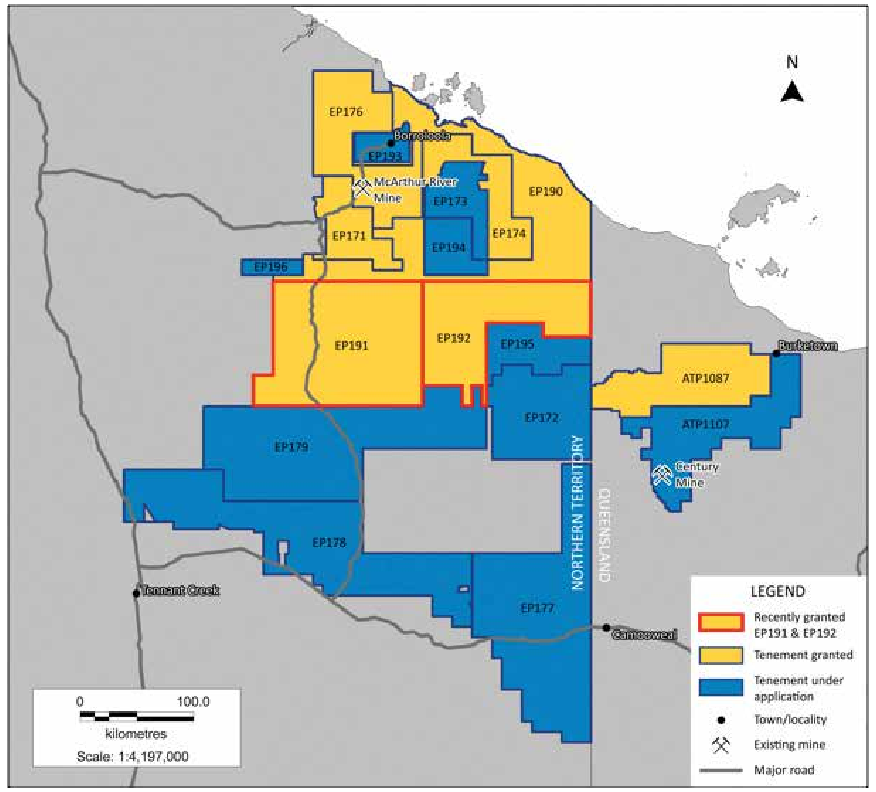

Figure 10: Location of EP192 and EP192, Northern Territory

MYRTLE BASIN 1 VERTICAL WELL

The Myrtle Basin 1 exploration well located just five kilometres to the south of the Daly Waters to McArthur River Pipeline (refer Figure 11) was spudded on 13 September and terminated on 29 September 2013, after drilling successfully to a depth of 861 metres, and penetrating the top of the Barney Creek Shale in the Myrtle Sub basin of the McArthur Basin. The Barney Creek Shale formation was encountered significantly deeper than prognosis, which could indicate stronger gas contents.

The remainder of the Barney Creek Shale and the underlying prospective Coxco Dolomite formation in Myrtle Basin 1 will subsequently be core drilled to test for hydrocarbons and to obtain geochemical laboratory data. Armour believes the Myrtle Sub basin is an area with potential to host deeper and possibly more prospective intervals than the 2012 Glyde Sub basin gas discovery.

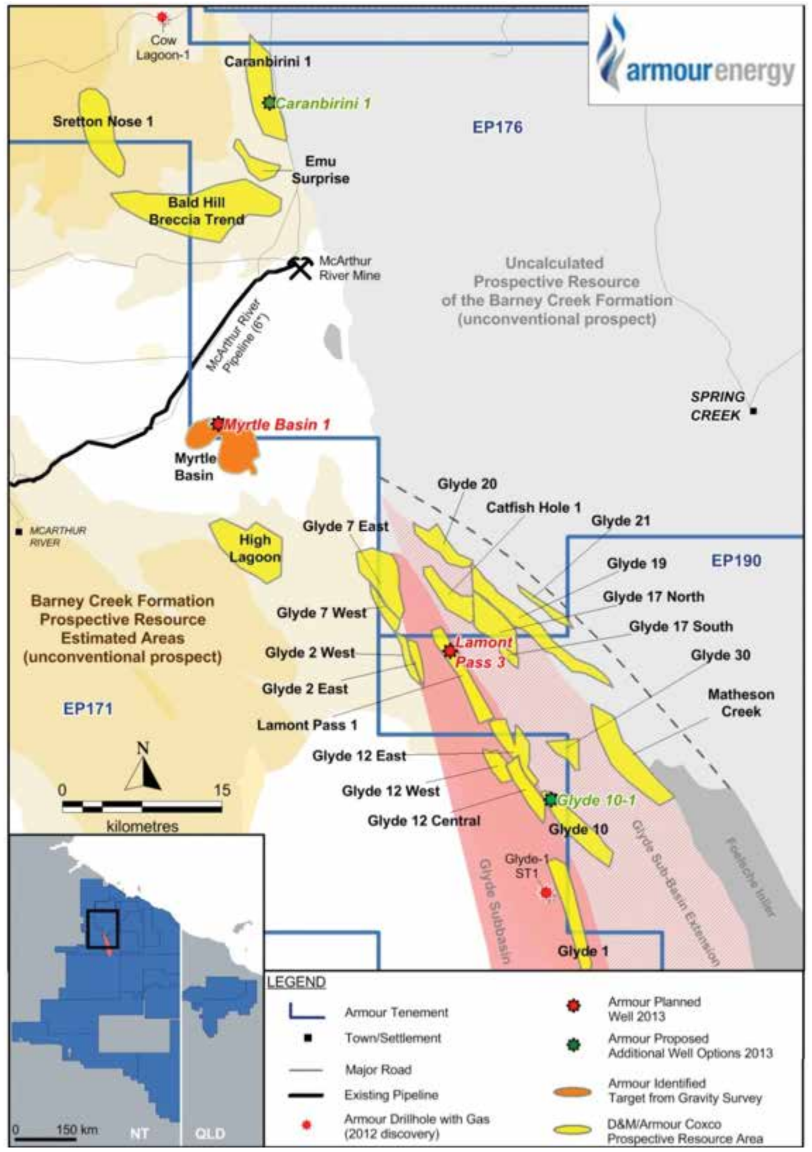

Figure 11: Myrtle Sub basin and Glyde Sub basin location map.

NAME OF WELL	TYPE OF WELL	LOCATION OF WELL	DETAILS OF THE PERMIT	WORKING INTERSET IN THE WELL	THE NET PAY THICKNESS OF CONVENTIONAL RESOURCES, IF THE GROSS PAY THICKNESS IS REPORTED	FORMATION TYPE
Myrtle Basin 1	vertical exploration well	SW part of EP 176 Myrtle Sub basin of the McArthur Basin, NT. Latitude -16.57, Longitude 136.03	EP 176 granted NE NT. Area is 8,007km^2	100%	n/a	Barney Creek Formation (unconventional potential) - Shale, and Coxco Dolomite Formation (conventional potential)

NAME OF WELL	DEPTH OF THE ZONE TESTED	TYPE OF THE TEST AND ITS DURATION	RECOVERED HYDROCARBON PHASE IN THE TEST	CHOKE SIZE, FLOW RATE, VOLUME OF HYDROCARBON PHASES, IF MEASURED	NUMBER OF FRACTURE STIMULATION STAGES, SIZE AND NATURE OF FRACTURE STIMULATION, IF APPLIED	ANY MATERIAL VOLUMES OF NON-HYDROCARBON GASES, SUCH AS CO2, N2, H2S, S
Myrtle Basin 1	n/a	n/a	n/a	n/a	n/a	n/a

LAMONT PASS 3 VERTICAL WELL

The Lamont Pass 3 exploration well is the second site testing for hydrocarbon accumulations located in the Glyde Sub basin of the McArthur Basin. The Lamont Pass 3 well was spudded on 5 October 2013, and is located 50 kilometres south of the Myrtle Sub basin, and twenty five kilometres north of the Glyde 1 (ST1) gas discovery made by Armour Energy in 2012, which flowed 3.3 million cubic feet per day (Figure 12).

The Lamont Pass 3 well was located and designed to test multiple targets from a single vertical well. The Lamont Pass structure is associated with a wider zone of potential Coxco Dolomite target areas extending along the Emu Fault trend and likely sourced from the Barney Creek Shale.

Just as a series of wells drilled by Amoco in 1979 discovered gas in the Glyde Sub basin leading to the successful Glyde ST1 well (drilled by Armour in August 2012), an offset 1982 Amoco 82 6 core well drilled five kilometres northwest of Lamont Pass 3 which reached a total depth of 300 metres reported up to 7% total organic content (TOC) with bitumen lined vugs and residual oil shows above the Barney Creek Shale. Lamont Pass 3 was prognosed to pass through these prospective intervals in the Caranbirini Member as well as the Reward Dolomite, Barney Creek Shale and the Coxco Dolomite to a total depth of approximately 1,200 metres. Both the Caranbirini Member and Reward Dolomite also had gas flows and shows in the Cow Lagoon 1 discovery well drilled by Armour Energy in 2012 (Figure 13).

While drilling on air at 260 metres, the Company first noted gas and associated oil indications with minor fluorescence and hydrocarbon cut. Prior to setting casing at 304 meters, significant connection gases were reported, up to 25 times the background gas levels. Core drilling then proceeded through the Lower Lynott formation. Hydrocarbon cut and fluorescence continued to be observed between 391 and 534 metres with a number of core sections taken and preserved for further analyses.

At a depth of 535 metres the well penetrated live oil in fractures and continued to encounter minor shows of background gas and oil shows to 780 metres, extending the prospective oil window from a 350 metre expected depth. Core samples of the oil zone were taken for further lab analysis.

The Lamont Pass 3 well reached a total depth of 1,275 metres, collecting 970 metres of core samples to characterise the geology of the Glyde Sub-basin. The well has now been logged, plugged and abandoned in line with the program.

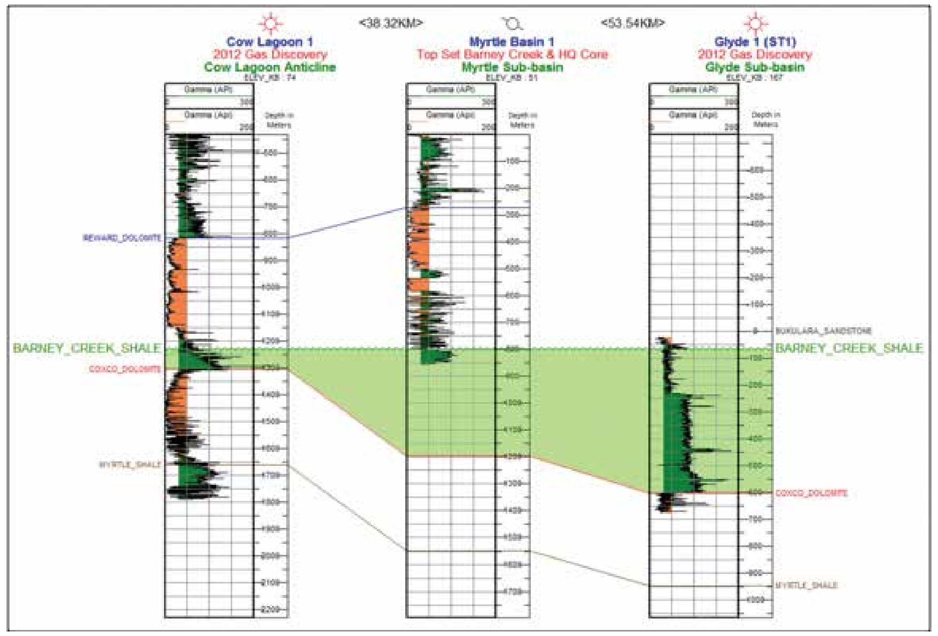

Figure 12: Geological cross section from the Cow Lagoon 1 gas discovery through the Myrtle Basin 1 wellbore and south to the Glyde 1 (ST1) gas discovery.

NAME OF WELL	TYPE OF WELL	LOCATION OF WELL	DETAILS OF THE PERMIT	WORKING INTERSET IN THE WELL	THE NET PAY THICKNESS OF CONVENTIONAL RESOURCES, IF THE GROSS PAY THICKNESS IS REPORTED	FORMATION TYPE
Lamont Pass 3	Vertical exploration well	SW part of EP 176, Glyde Sub basin of the McArthur Basin, NT. Latitude - 16.45, Longitude 136.13	EP 176 granted NE NT. Area is 8,007km^2	100%	n/a	Barney Creek Formation (unconventional potential) - Shale, and Coxco Dolomite Formation (conventional potential)

NAME OF WELL	DEPTH OF THE ZONE TESTED	TYPE OF THE TEST AND ITS DURATION	RECOVERED HYDROCARBON PHASE IN THE TEST	CHOKE SIZE, FLOW RATE, VOLUME OF HYDROCARBON PHASES, IF MEASURED	NUMBER OF FRACTURE STIMULATION STAGES, SIZE AND NATURE OF FRACTURE STIMULATION, IF APPLIED	ANY MATERIAL VOLUMES OF NON-HYDROCARBON GASES, SUCH AS CO2, N2, H2S, S
Lamont Pass 3	n/a	n/a	n/a	n/a	n/a	n/a

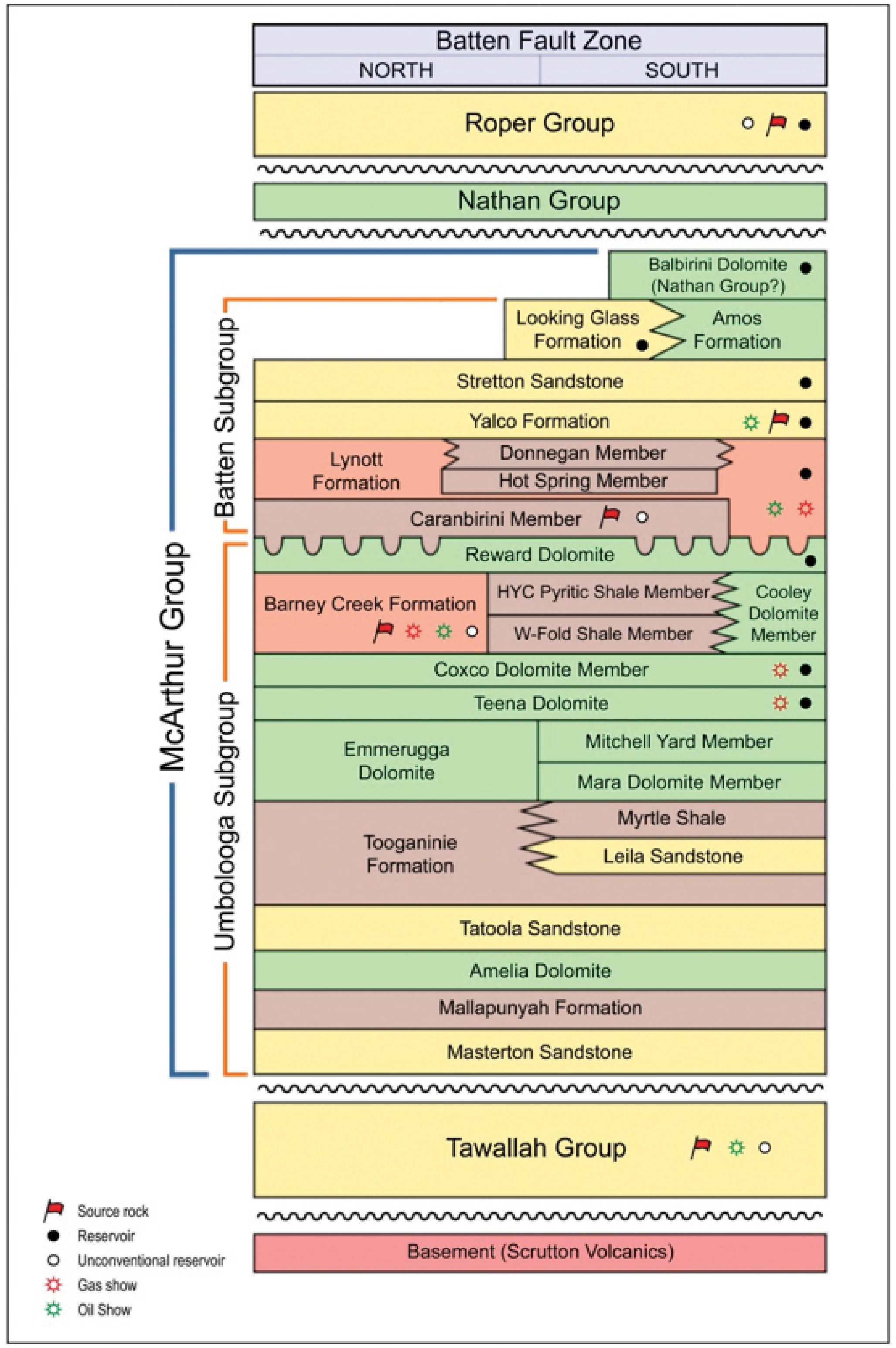

Figure 13: Stratigraphic Column for the Batten Trough with oil and gas shows (modified from MBA Petroleum Consultants, 2011).

CONVENTIONAL GAS RESOURCES INCREASE TEN-FOLD IN NT

Third party resource estimates have been updated following the Company's 2013 Northern Territory exploration program. These updated estimates are compared to estimates previously announced in Figure 14 below, and increase from 322PJ to 3,496PJ of conventional gas resources, in addition to Armour's unconventional gas 2P Prospective Resources in the Northern Territory.

SRK Consulting (Australasia) Pty Ltd. has based its estimate of 2,254 BCF (2,745 PJ) 2P Prospective Resources, unrisked, on fifty five (55) of Armour's targeted prospects and leads. These estimates were made in accordance with the Society of Petroleum Engineers (SPE) Petroleum Resource Management System (PRMS) guidelines, and as of 26 November, 2013. A summary of SRK's estimates are set out in Table 1.

These estimates include and compare to the previous twenty three (23) targets assessed by DeGolyer and MacNaughton containing 255.6 BCF (311.3 PJ) of 2P Prospective Resources, unrisked, in accordance with SPE PRMS guidelines and as of 1 April 2013 (Table 1).

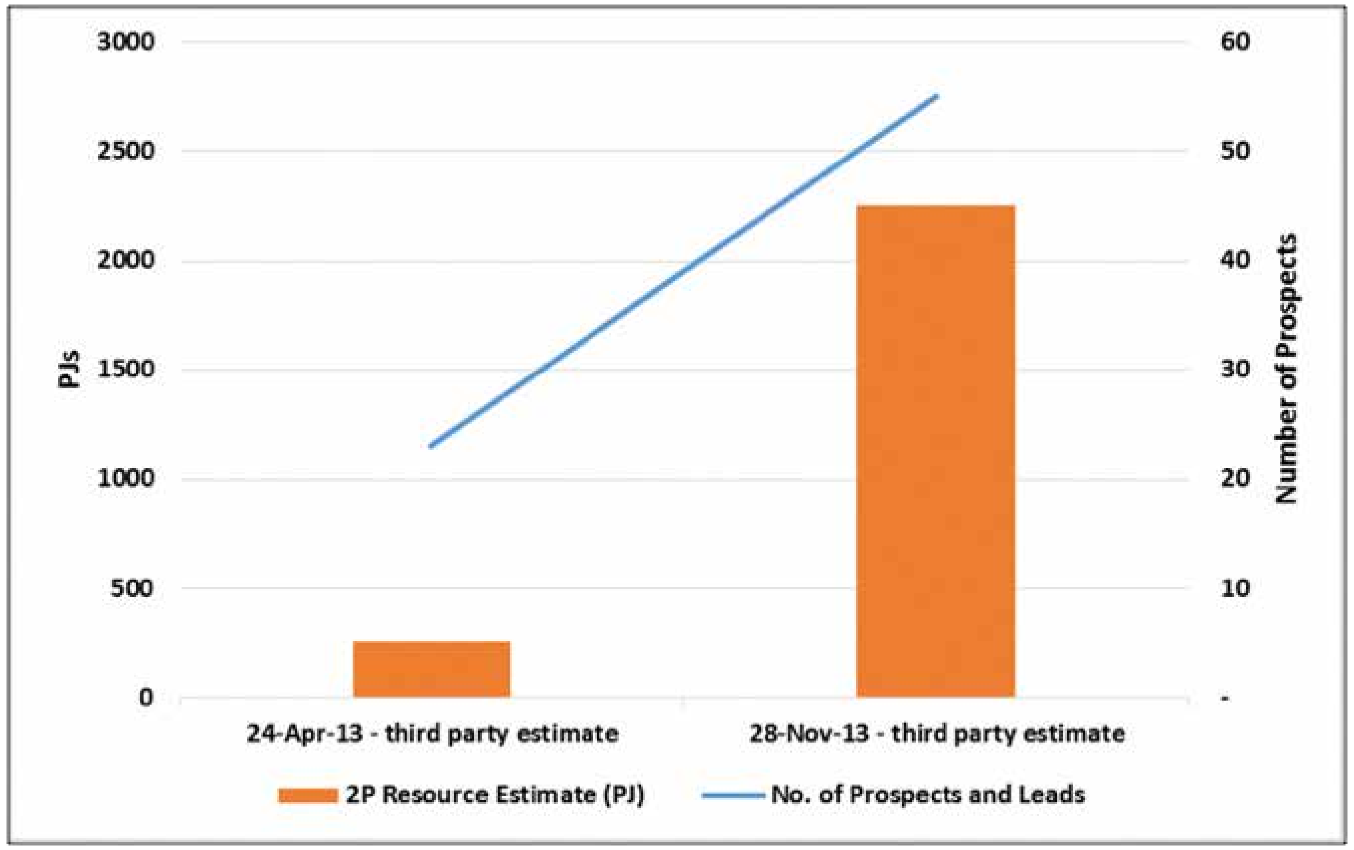

Figure 14 – Comparison of Coxco, conventional gas, 2P Prospective Resource estimates – EP171, 176, and 190 in the Northern Territory

Table 1: Estimates of Conventional Gas Prospective Resources, unrisked, in Coxco Dolomite, EPs 171, 176 and 190 within the Batten Trough

ASSESSOR	LOW ESTIMATE (Bscf)	MOST LIKELY ESTIMATE (Bscf)	HIGH ESTIMATE (Bscf)	MEAN ESTIMATE (Bscf)	LOW ESTIMATE (PJ)*	MOST LIKELY ESTIMATE (PJ)*	HIGH ESTIMATE (PJ)*	MEAN ESTIMATE (PJ)*
De Golyer and MacNaughton (as of 1 April 2013)	191.5	255.6	345.9	264.4	233.2	311.3	421.3	322.0
SRK Consulting (as of 26 November 2013)	890	2,254	5,708	2,870	1,984	2,745	6,952	3,496

*Based on Glyde 1 ST1 gas chromatography data or a conversion of 1.218 G J/Mscf

The estimated quantities of Prospective petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. Probabilistic volumes are reported. All Prospective Resources are 100% to Armour Energy Limited.

This type of conventional gas accumulation was discovered by Armour in the Coxco Dolomite of the Teena Formation, a conventional, free flowing reservoir in the Batten Trough, McArthur Basin. The Glyde 1 ST1 lateral well was tested in August 2012 and flowed at 3.3 million standard cubic feet per day equivalent at a pressure of 125 psi during 45 minutes of testing on a 16/64 inch choke. This discovery also substantiates the previously announced Contingent Resources, unrisked, assessed by DeGolyer and MacNaughton in accordance with SPE PRMS guidelines and as of 1 April 2013 (Table 2).

The Coxco prospects and leads were defined by SRK based on extensive studies of surface geology, well data, regional geophysical data, and integration of the extensive airborne gravity and magnetic surveys completed by the Company. The location of EP171, 176 and 190 within Armour's broader Northern Australian portfolio is illustrated in Figure 10.

Table 2: Estimates of Conventional Gas Contingent Resources, unrisked, of Coxco Dolomite, Glyde 1 Target Area (based on Glyde 1 ST1) within EP 171 within the Batten Troughble 2: Estimates of Conventional Gas Contingent Resources, unrisked, of Coxco Dolomite, Glyde 1 Target Area (based on Glyde 1 ST1) within EP 171 within the Batten Trough

ASSESSOR	AREA (KM²)	1C (Bscf)	2C (Bscf)	3C (Bscf)	1C (PJ)*	2C (PJ)*	3C (PJ)*
De Golyer and MacNaughton (as of 1 April 2013)	5.83	2.4	6.0	10.3	2.9	7.4	12.5

*Based on Glyde 1 ST1 gas chromatography data or a conversion of 1.218 G J/Mscf

The estimated quantities of Prospective petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. Probabilistic volumes are reported. All Contingent Resources are 100% to Armour Energy Limited.

VICTORIA LAKES OIL JOINT VENTURE TENEMENT PEP 169

FARMIN RIGHTS EXERCISED FOR PRL2 IN THE GIPPSLAND BASIN, VICTORIA

In December 2013 the Company announced that it had exercised a right to farmin to Petroleum Retention Lease 2 in Victoria (PRL2), held by Lakes Oil NL (ASX: LKO).

The farmin agreement will give Armour Energy the right to obtain up to a 50% working interest in the highly prospective PRL2 as part of a two stage farmin program. Armour Energy may withdraw from the agreement without cost.

PRL2, located in the onshore Gippsland Basin in Victoria, is considered prospective for both tight and conventional gas accumulations and is in close proximity to existing infrastructure and markets (Figure 15). PRL2 covers several tight conventional reservoirs in the Strzelecki Formation of the Gippsland Basin, onshore in Victoria. The southern half of PRL2 is considered by Armour Energy to be geologically very similar to the highly productive offshore section of the Gippsland Basin.

Numerous wells have been drilled within PRL2 by Lakes Oil in the past and have encountered gas and/or oil. Successful stimulation of the reservoir in vertical drill holes in the Wombat Field, within PRL2, has led to several encouraging flow tests in 2009 and 2010.

Armour Energy holds the view that the presence of gas bearing columns in excess of 500 metres thick across seven targeted structures in the Strzelecki Formation indicates potential for early definition of commercial reserves of gas. At the Wombat Field alone, four wells have been drilled and 3C Resources of 628 Bcf of gas (2C 329Bcf) were reported by Lakes Oil in 2010.

Armour Energy's right to farmin to PRL2 arose following the withdrawal (announced by Lakes Oil in August 2013) of Beach Energy Limited ("Beach") and Somerton Energy Limited from their Farmin Agreement with Lakes Oil relating to PRL2 ("Beach Agreement"). Pursuant to a separate agreement between Armour Energy and Lakes Oil dated 2 December 2011, Armour Energy had the right to match the Beach Agreement in the event of a withdrawal by Beach.

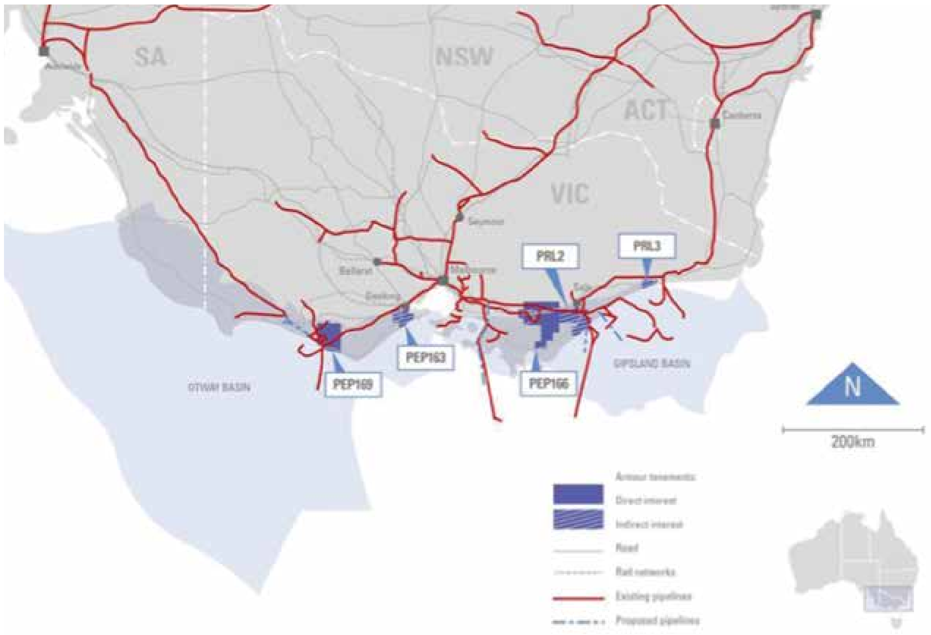

Figure 15 – Map of Armour Energy's interests in Victorian tenements (direct and indirect)

REVIEW OF OPERATIONS

PROPOSED OTWAY 1 EXPLORATION WELL

Armour through its joint venture with Lakes Oil plans to drill Otway 1 once government approvals have been received – this is not expected until at least 2015. This well will be located adjacent to and up-dip from the Iona Gas Field (figure 16) targeting three objectives in a tilted fault block with closures at three potential levels. The targets are: Pebble Point Formation, Waarre 'C' Formation and Eumeralla Formation. The Otway Prospect can be correlated to the Iona Field and mapped from 3D seismic data to contain the Waarre 'C' Formation, the producing reservoir in the Iona Field. The well is planned as a conventional structural test and will not be using hydraulic fracturing.

The 3D seismic data indicates that there is an amplitude anomaly (bright spot) present at the Pebble Point and Eumeralla horizons, which could indicate oil or gas.

The location of proposed Otway 1 well is adjacent to the Iona Gas Facility.

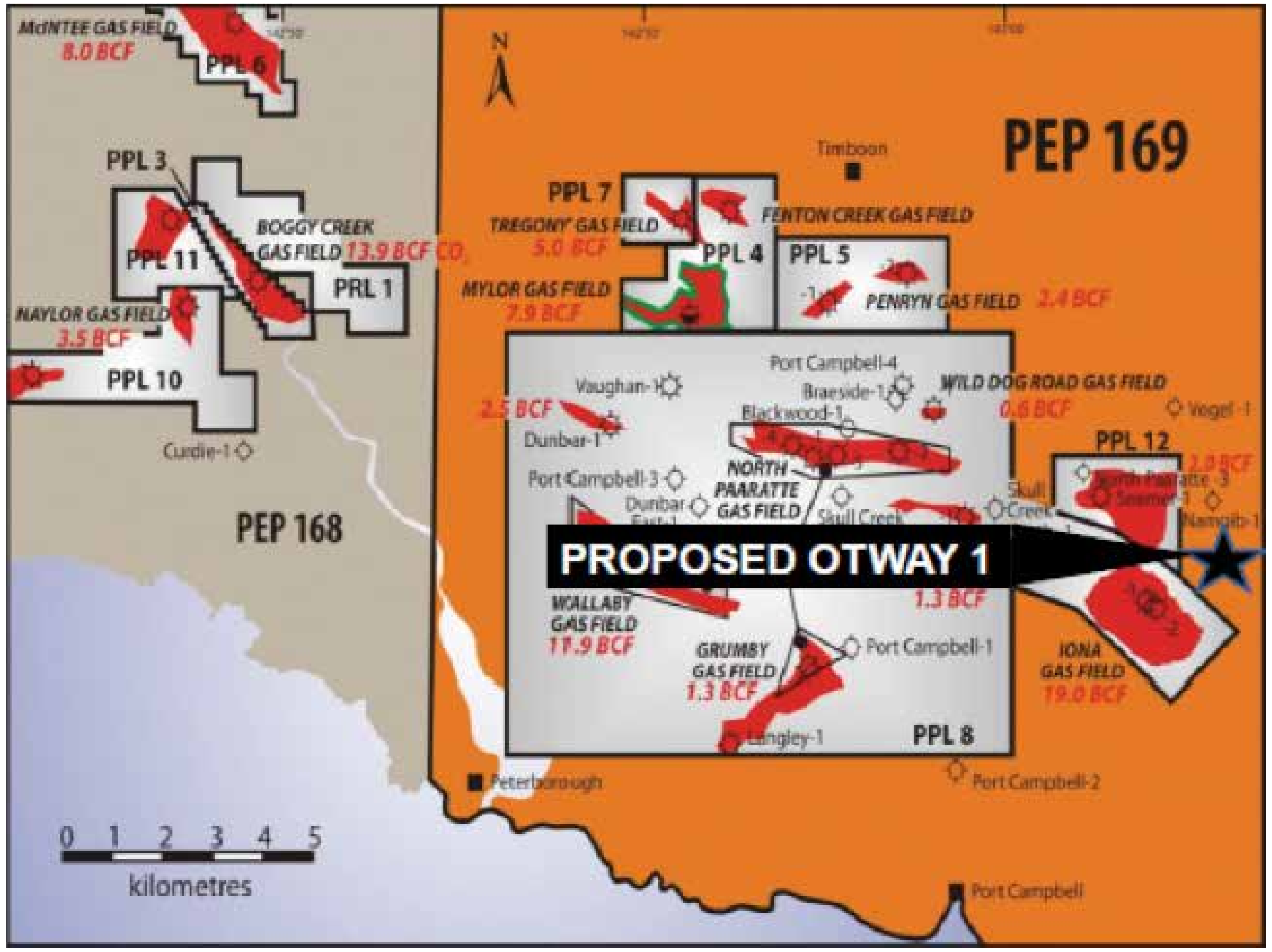

Figure 16 – Map showing location of Proposed Otway 1 Well in Victoria (JV with Lakes Oil)

DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2014.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Nicholas Mather

Philip McNamara – resigned 5 August 2013

William (Bill) Stubbs

Roland Sleeman

Jeremy Barlow – resigned 20 February 2014

Stephen Bizzell

Nicholas Mather – Executive Chairman
BSc (Hons,Geol), MAusIMM

Nicholas Mather's special area of experience and expertise is the generation of and entry into undervalued or unrecognised resource 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 exploration campaigns and managing emerging resource companies Mr Mather brings a wealth of valuable experience.

During the past three years Mr Mather has also served as a Director of the following listed companies:

- DGR Global Ltd*
- Orbis Gold Ltd* (formerly Mt Isa Metals Ltd)
- Aus Tin Mining Limited* (formerly AusNico Limited)
- Navaho Gold Ltd*
- Bow Energy Ltd (resigned 11 January 2012)
- Lakes Oil NL*
- SolGold plc, which is listed on the London Stock Exchange (AIM)*

* Current Directorships

William (Bill) Stubbs – Non Executive Director
LLB

Bill Stubbs is a lawyer of 35 years' experience and is currently the Chairman of DGR Global Ltd. He was the co-founder of the legal firm Stubbs Barbeler and has practiced extensively in the area of Commercial Law including Stock Exchange listings and all areas of mining law.

Mr Stubbs has held the position of Director of various public companies over the past 25 years in the mineral exploration and biotech fields. He is also the former Chairman of Alchemia Ltd, and Bemax Resources NL which discovered and developed extensive mineral sands resources in the Murray Basin. He was the founding Chairman of Arrow Energy NL which originally pioneered coal seam gas development in Queensland's Bowen and Surat Basins from 1998, and is now a world-wide coal seam gas company.

During the past three years Mr Stubbs has also served as a Director of the following listed companies:

- DGR Global Ltd*
- Coalbank Ltd (resigned 22 November 2013)
- Lakes Oil NL*

* Current Directorships

Roland Sleeman – Non Executive Director
BEng (Mech), MBA

Roland 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 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. Mr. Sleeman has provided specialist commercial, regulatory and project development advice to both the public and private sectors.

Mr Sleeman has not served as a Director of any other listed company in the last 3 years.

Stephen Bizzell – Non Executive Director
BComm, MAICD

Stephen Bizzell is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd.

Mr Bizzell was previously an 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 previously a Non-Executive Director of Bow Energy Ltd prior to its takeover by Arrow Energy Pty Ltd for $0.5 billion in January 2012.

He has had further experience in the unconventional oil and gas sector as a Director of Dart Energy Ltd, Apollo Gas Ltd and Titan Energy Services Ltd.

Mr Bizzell qualified as a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Tax division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 20 years' corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies.

He is also a Director of Queensland Treasury Corporation.

During the past three years Mr Bizzell has also served as a Director of the following listed companies:

- Apollo Minerals Ltd (delisted following takeover in January 2011)
- Bow Energy Ltd (resigned 11 January 2012)
- Dart Energy Ltd (resigned 26 November 2013)
- Diversa Ltd*
- Hot Rock Ltd (resigned 14 August 2014)
- Renascor Resources Ltd* (formerly Renaissance Uranium Ltd)
- Stanmore Coal Ltd*
- Titan Energy Services Ltd*
- Laneway Resources Limited* (formerly Renison Consolidated Mines NL)

*Current Directorships

As at the date of this report, the interests of the Directors in the shares and options of Armour Energy Ltd were:

	NUMBER OF ORDINARY SHARES	NUMBER OF OPTIONS OVER ORDINARY SHARES
Nicholas Mather	2,719,855	-
William (Bill) Stubbs	410,000	-
Roland Sleeman	60,000	-
Stephen Bizzell	1,310,000	-

COMPANY SECRETARY

Karl Schlobohm – Company Secretary
B.Comm, B.Econ, M.Tax, CA, AICD

Karl Schlobohm is a Chartered Accountant with over 20 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. Over the past 10 years, Mr Schlobohm has contracted into roles as CFO and/or Company Secretary for a number of ASX-listed resource companies including Linc Energy, Discovery Metals and Meridian Minerals.

He currently acts as the Company Secretary for ASX-listed DGR Global Ltd, Navaho Gold Ltd, AusTin Mining Ltd and LSE (AIM)-listed SolGold Plc. Mr Schlobohm is also a Director of Navaho Gold Ltd.

CORPORATE STRUCTURE

Armour Energy Ltd (the "Company") 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 became an ASX-listed company on 26 April 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Company, and its subsidiary (the consolidated entity) during the financial year involved exploration for economically viable reserves of both conventional and unconventional natural gas and oil in both the Northern Territory and Queensland, and in the onshore Gippsland Basin in Victoria in joint venture with Lakes Oil NL.

Ripple Resources is a wholly owned subsidiary of the Company, and holds eleven granted EPM's (Exploration Permits for Minerals) in Queensland, within the area covered by ATP1087. In the Northern Territory, Ripple Resources holds three granted EPM's and twelve applications, covering a large number of Armour Energy's applications and tenements.

There was no significant change in the nature of the activities of the Company during the financial year.

DIVIDENDS

No dividends were declared or paid during the financial year or since the end of the year.

REVIEW AND RESULTS OF OPERATIONS

The loss after income tax for the Company, and its subsidiary (the consolidated entity) for the year ended 30 June 2014 was $1,694,418 (2013: profit $1,579,900).

The Directors confirm that the period since the Company's admission on the Australian Securities Exchange, the Company has used its cash (and assets in a form readily convertible to cash) in a way consistent with its business objectives.

The review of operations for the year is discussed in the Annual Report under the heading "Review of Operations".

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Company that occurred during the financial year under review not otherwise disclosed in this report or the financial statements of the Company for the financial year.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Planned developments in the operations of the Company and the expected results of those operations, as well the Company's corporate strategy in subsequent financial years have been discussed where appropriate under "Review and results of operations".

There are no further developments of which the Directors are aware which could be expected to affect the results of the Company's operations and plans, other than information which the Directors believe comment on, or disclosure of, would prejudice the interests of the Company.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The Directors have put in place strategies and procedures to ensure that the Company manages its compliance with environmental regulations. The Directors are not aware of any breaches of any applicable environmental regulations.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the Court under section 237 of 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 any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2014 outlines the remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 (the "Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company, and includes the Executive team.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration policy
3. Non-executive Director remuneration arrangements
4. Executive remuneration arrangements
5. Company performance and the link to remuneration
6. Executive contractual arrangements
7. Equity instruments disclosures
8. Other transactions with key management personnel

1. Individual key management personnel disclosures

Key management personnel

(i) Directors

Nicholas Mather	Executive Chairman
Philip McNamara	Director (to 5 August 2013) Managing Director and Chief Executive Officer (to 5 July 2013)
William (Bill) Stubbs	Non-executive Director
Roland Sleeman	Non-executive Director
Jeremy Barlow	Non-executive Director (to 20 February 2014)
Stephen Bizzell	Non-executive Director

(ii) Executives

Raymond Johnson	General Manager – Reservoir Development (to 19 March 2014)
Robbert de Weijer	Chief Executive Officer (from 8 July 2013)
Chris Ohlrich	Chief Commercial Officer (from 26 August 2013)
Roger Cressey	Chief Operating Officer
Karl Schlobohm	Company Secretary
Priy Jayasuriya	Chief Financial Officer

Other than the above, there were no changes to KMP after reporting date and before the date the financial report was authorised for issue.

2. Remuneration policy

Armour Energy's remuneration strategy is designed to attract, motivate and retain employees and Non-Executive Directors by identifying and rewarding high performers and recognising the contribution of each person to the continued growth and success of the Company.

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team. 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 shareholder benefit from the retention of a high quality Board and Executive team. 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 the Company. Further details on the remuneration of Directors and Executives are set out in this Remuneration Report.

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

In accordance with best practice corporate governance, the structure of Non-Executive Directors and executive remuneration is separate and distinct.

3. Non-Executive Director remuneration arrangements

The board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest caliber, whilst incurring a cost that is acceptable to shareholders. The Company's specific policy for determining the nature and amount of remuneration of Board members of the Company is as outlined below.

The Constitution of the Company provides that the Non-Executive Directors are entitled to remuneration as determined by the Company in general meeting to be paid as to a fixed amount for each Director. Additionally, Non-Executive Directors are entitled to be reimbursed for properly incurred expenses.

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

All Directors have the opportunity to qualify for participation in the Company's Employee Share Option Plan, subject to the approval of shareholders.

The remuneration of Non-Executive Directors for the year ended 30 June 2014 is detailed in this Remuneration Report.

4. Executive remuneration arrangements

The Company aims to reward the Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- align the interests of the Executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

The remuneration of Executives may from time to time be fixed 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:

- performance based salary increases and/or bonuses; and/or
- the issue of options.

The remuneration of the Executives employed by the Company for the year ending 30 June 2014 is detailed in this Remuneration Report.

5. Company performance and the link to remuneration

During the financial year, the Company has generated losses as its principal activity was exploration for economically viable reserves of both conventional and unconventional natural oil and gas. The closing share price for the company on the ASX as at 30 June 2014 was $0.155.

	SHARE PRICE AT 30 JUNE
2014	$0.155
2013	$0.220
2012	$0.275

As the Company is still in the exploration and development stage, the link between remuneration, Company performance and shareholder wealth is 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.

6. Executive contractual arrangements

It is the Board's policy that employment agreements are entered into with all Executives.

The current employment agreement with the Chief Executive Officer ("CEO") has a notice period of three (3) months. All other employment agreements have three month (or less) notice periods. Executives are entitled to their statutory entitlements of accrued annual leave and long service leave together with any superannuation on termination. No other termination payments are payable.

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 Company 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 the Company's Directors & Officers insurance policy;
- Directors are made aware of the Company's Corporate Governance policies and procedures;
- Directors are currently entitled to remuneration of $50,000 per annum, plus reasonable expenses for travel and accommodation.

DIRECTORS' REPORT

Phil McNamara – Chief Executive Officer (1 July 2012 to 5 July 2013)

The Company had a three (3) year Executive Service Agreement with Mr Philip McNamara, which took effect on 7 July 2010.

Under the terms of the agreement:

- Mr McNamara was entitled to a base remuneration of $400,000 per annum;
- Mr McNamara was entitled to participate in the issue of incentive options in the Company in accordance with the Company's Employee Share Option Scheme;
- Both the Company and Mr McNamara were entitled to terminate the contract upon giving three (3) months written notice, or at the end of its three year term;
- The Company was entitled to terminate the agreement immediately upon Mr McNamara's insolvency or certain acts of misconduct;
- Mr McNamara was entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, authority or responsibilities;
- Mr McNamara was entitled to a series of performance bonuses equal to 230% of the annual salary over the lifetime of the Executive Service Agreement, if the following key performance indicators were met (which were subject to board approval and any applicable regulatory requirements):
    h. 10% – existing tenement applications granted or deal on granted 3rd party tenure sufficient for IPO (this milestone was achieved and a cash bonus of $40,000 was paid);
    i. 20% – IPO completed (this milestone was achieved and a bonus of $80,000 was paid);
    j. 30% – Business deal with North American producer or suitable equivalent with respect to drilling, production and enhancement;
    k. 20% – Queensland tenements offered for grant;
    l. 30% – First gas production;
    m. 20% – Gas reserves at minimum 3P definition in excess of 5,000 PJs or 5 trillion cubic feet;
    n. 50% – First sales agreements for more than 100 PJs per annum; and
    o. 50% – Financial close on filed development for more than 90 PJs per annum.

Robbert de Weijer – Chief Executive Officer (8 July 2013 to current)

The Company has an Executive Employment Agreement with Mr Robbert de Weijer, which took effect on 8 July 2013.

Under the terms of the agreement:

- Mr de Weijer is entitled to a base remuneration of $300,000 per annum, inclusive of superannuation up to 31 August 2013, and $375,000 per annum, inclusive of superannuation up to 31 December 2013. From 1 January 2014, Mr de Weijer's salary will increase to $400,000 per annum inclusive of superannuation. If Mr de Weijer is appointed as Managing Director of the Company, his salary will be $425,000 per annum inclusive of superannuation;
- Mr de Weijer is entitled to participate in the issue of incentive options in the Company in accordance with the Company's Employee Share Option Scheme;
- Both the Company and Mr de Weijer are entitled to terminate the contract upon giving three (3) months written notice;
- The Company is entitled to terminate the agreement immediately upon Mr de Weijer's insolvency or certain acts of misconduct;
- Mr de Weijer is entitled to terminate the agreement immediately upon a significant diminution in his benefits, job content, status, responsibilities or authority;

- Mr de Weijer is entitled to a series of performance bonuses, at the Board's election, if the following key performance indicators are met:
    a. 15% max per annum - successful execution of drill programs in NT and QLD on time and on budget (for annual assessment by 30 June in each year);
    b. 15% max per annum - execution of major conditional gas sales, transportation and/or project sell down or joint venture (for annual assessment by 30 June in each year);
    c. 20% - successful implementation of a change of control transaction approved by the Board (upon completion) (once off entitlement) not resulting in termination;
    d. 10% - for every 500 petajoules of proven and probable (2P) reserves booked by the Company, as certified by an independent expert under SPP PRMS guidelines (for assessment whenever reasonably required).
- Subject to obtaining any approvals legally required, including pursuant to the ASX listing rules, the Company shall issue Mr de Weijer 7,500,000 options to subscribe for fully paid ordinary shares in the Company exercisable upon the following terms:

a. No consideration is payable for the grant of the options;

b. The options are to subscribe for ordinary shares in the Company;

c. The exercise price for the Options is:

(ii) In respect of 2,500,000 Options, $0.50 each, vesting 24 January 2014;

(iii) In respect of 2,500,000 Options, $0.75 each, vesting 24 January 2015;

(iv) In respect of 2,500,000 Options, $1.00 each, vesting 24 January 2016;

d. The options expire on 24 July 2018.

Other Executives

Employment contracts entered into with Executives contain the following key terms:

EVENT	COMPANY POLICY
Performance based salary increases and/or bonuses	Board discretion
Short and long-term incentives, such as options	Board discretion
Resignation/ notice period	3 months
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination, outside industrial regulations (i.e. 'golden handshakes')	None

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

- ensure employees understand the Company's business drivers, objectives and performance;
- strengthen the involvement and focus of employees in achieving the business' objectives; and
- improve teamwork, communication and interaction among employees.

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

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

In 2014, no bonuses were paid or payable for the financial year.

NAME	PERFORMANCE PAYMENT PAID/PAYABLE 2014	PERFORMANCE PAYMENT FORFEITED 2014
Raymond Johnson	-%	100%
Robbert de Weijer	-%	100%
Chris Ohlrich	-%	100%
Roger Cressey	-%	100%
Karl Schlobohm	-%	100%
Priy Jayasuriya	-%	100%

DIRECTORS'
REPORT

Remuneration of Directors and Other Key Management Personnel

DIRECTORS	SHORT TERM BENEFITS		POST-EMPLOYMENT	SHARE BASED PAYMENTS EQUITY SETTLED		TOTAL	CONSISTING OF OPTIONS	PERFORMANCE RELATED
	SALARY & FEES ($)	BONUS ($)	SUPER-ANNUATION ($)	OPTIONS ($)	SHARES ($)	($)	%	%
Nicholas Mather								
2014	227,433	-	-	-	-	227,433	-%	-%
2013	245,000	-	-	-	-	245,000	-%	-%
Philip McNamara								
2014	19,584	-	314	-	-	19,899	-%	-%
2013	353,530	-	16,767	-	-	370,297	-%	-%
William Stubbs								
2014	62,500	-	-	-	-	62,500	-%	-%
2013	75,000	-	-	-	-	75,000	-%	-%
Roland Sleeman								
2014	62,648	-	-	2,907	-	65,555	4.4%	-%
2013	75,000	-	-	9,308	-	84,308	11.0%	-%
Jeremy Barlow								
2014	41,445	-	3,834	2,766	-	48,044	5.8%	-%
2013	68,807	-	6,193	9,803	-	84,803	11.6%	-%
Stephen Bizzell								
2014	62,500	-	-	2,766	-	65,266	4.2%	-%
2013	75,000	-	-	9,803	-	84,803	11.6%	-%
TOTAL REMUNERATION								
2014	476,110	-	4,148	8,439	-	488,697		
2013	892,337	-	22,960	28,914	-	944,211		

KEY MANAGEMENT PERSONNEL	SHORT TERM BENEFITS		POST-EMPLOYMENT	SHARE BASED PAYMENTS EQUITY SETTLED		TOTAL	CONSISTING OF OPTIONS	PERFORMANCE RELATED
	SALARY & FEES ($)	BONUS ($)	SUPER-ANNUATION ($)	OPTIONS ($)	SHARES ($)	($)	%	%
Robbert de Weijer								
2014	336,977	-	24,406	1,062,157	12,226	1,435,766	74.0%	-%
2013	-	-					-%	-%
Chris Ohlrich								
2014	222,290	-	21,426	510,237	9,345	763,298	66.8%	-%
2013	-	-					-%	-%
Raymond Johnson								
2014	271,184	-	21,591	33,661	8,126	334,562	10.1%	-%
2013	321,101	80,000	26,348	74,462	17,975	519,886	14.3%	15.4%
Roger Cressey								
2014	294,955	-	29,320	53,531	10,651	388,457	13.8%	-%
2013	302,752	100,000	25,077	37,231	-	465,061	8.0%	21.5%
Karl Schlobohm								
2014	27,993	-	-	9,711	2,693	60,397	16.1%	-%
2013	50,000	24,500	-	-	-	74,500	-	32.9%
Priy Jayasuriya								
2014	42,229	-	4,243	13,740	1,878	62,090	22.1%	-%
2013	45,872	24,500	4,128	9,308	-	83,808	11.1%	29.2%
TOTAL REMUNERATION								
2014	1,215,628	-	100,986	1,683,037	44,919	3,044,570		
2013	719,725	229,000	55,553	121,001	17,975	1,143,254		

Performance income as a proportion of total remuneration

No performance based payments to the Key Management Personnel were paid or payable during 2014 (2013: $229,000).

7. Equity instruments disclosures

Options granted as part of remuneration for the year ended 30 June 2014

Options may be granted 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 to align comparative shareholder return and reward for Directors and Executives.

During the year ended 30 June 2014, there were 14,100,000 options granted as remuneration to Key Management Personnel. Details of all options on issue over unissued ordinary shares in Armour Energy Ltd at 30 June 2014 to Key Management Personnel as remuneration are set out below:

KEY MANAGEMENT PERSONNEL	GRANT DATE	GRANT NUMBER	EXERCISE PRICE	EXPIRY DATE	VEST DATE	NUMBER VESTED	% VESTED	VALUE PER PERFORMANCE SHARE AT GRANT DATE#	EXERCISED IN CURRENT YEAR	EXERCISED IN PRIOR YEAR	BALANCE AT 30/6/14
Directors											
R Sleeman	11/10/11	500,000	$0.50	11/10/14	11/10/13	500,000	100%	$0.037	-	-	500,000
J Barlow	14/02/12	500,000	$0.50	11/10/14	11/10/13	500,000	100%	$0.032	-	-	500,000
S Bizzell	09/03/12	500,000	$0.50	11/10/14	11/10/13	500,000	100%	$0.032	-	-	500,000
Other Key Management											
R de Weiier	24/07/13	2,500,000	$0.50	24/07/18	6, 18, 30 months	833,333	33.3%	$0.198	-	-	2,500,000
R de Weiier	24/07/13	2,500,000	$0.75	24/07/18	6, 18, 30 months	833,333	33.3%	$0.183	-	-	2,500,000
R de Weiier	24/07/13	2,500,000	$1.00	24/07/18	6, 18, 30 months	833,333	33.3%	$0.171	-	-	2,500,000
R de Weiier	26/02/14	1,500,000	$0.26	25/02/17	26/02/14	1,500,000	100%	$0.097	-	-	1,500,000
C Ohlrich	25/07/13	1,250,000	$0.50	26/08/18	6, 18, 30 months	416,667	33.3%	$0.190	-	-	1,250,000
C Ohlrich	25/07/13	1,250,000	$0.75	26/08/18	6, 18, 30 months	416,667	33.3%	$0.174	-	-	1,250,000
C Ohlrich	25/07/13	1,250,000	$1.00	26/08/18	6, 18, 30 months	416,667	33.3%	$0.163	-	-	1,250,000
C Ohlrich	26/02/14	750,000	$0.26	25/02/17	26/02/14	750,000	100%	$0.097	-	-	750,000
R Johnson	01/12/11	4,000,000	$0.50	01/12/14	04/11/13	4,000,000	100%	$0.037	-	-	4,000,000
R Cressey	21/11/11	2,000,000	$0.50	21/11/14	04/11/13	2,000,000	100%	$0.037	-	-	2,000,000
R Cressey	26/02/14	400,000	$0.26	25/02/17	26/02/14	400,000	100%	$0.097	-	-	400,000
P Jayasuriya	04/11/11	500,000	$0.50	04/11/14	04/11/13	500,000	100%	$0.037	-	-	500,000
P Jayasuriya	26/02/14	100,000	$0.26	25/02/17	26/02/14	100,000	100%	$0.097	-	-	100,000
K Schlonohm	26/02/14	100,000	$0.26	25/02/17	26/02/14	100,000	100%	$0.097	-	-	100,000

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 (refer Note 17).

The options granted on commencement of employment generally have up to a 2 year vesting period and a 3 year life. Once vested, options can be exercised at any time up to the expiry date. None of the above options were forfeited during the year ended 30 June 2014. The options are not granted based on performance criteria, as the Board does not consider this appropriate for a junior exploration company. No amount was paid or payable on the grant of the options. During the current financial year, 2,850,000 options were issued to key management personnel at an exercise price of $0.26, which vested immediately and have a life of 3 years.

Shares issued on exercise of remuneration options

There were no options exercised during the year that were previously granted as remuneration (2013: nil).

Performance shares

Details of all performance shares on issue over unissued ordinary shares in Armour Energy Ltd at 30 June 2014 to Key Management Personnel as remuneration are set out below:

KEY MANAGEMENT PERSONNEL	GRANT DATE	GRANT NUMBER	EXERCISE PRICE	EXPIRY DATE	VEST DATE	NUMBER VESTED	% VESTED	VALUE PER PERFORMANCE SHARE AT GRANT DATE #	EXERCISED IN CURRENT YEAR	EXERCISED IN PRIOR YEAR	BALANCE AT 30/6/14
Other key management											
R Johnson	12/12/11	180,000	$0.00	12/12/14	12/12/13	180,000	100%	$0.20	180,000	-	-

Value per performance share 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 (refer Note 17).

Shareholdings

For the period March to June 2014, the Company's Management agreed for 20 per cent of their base remuneration to be paid by way of shares in the Company. The shares are issued in advance, based on the preceeding 20-day VWAP. This arrangement will be applicable for a limited time and subject to board approval each quarter.

CURRENT YEAR	BALANCE 1 JULY 2013	GRANTED AS COMPENSATION[1]	OPTIONS EXERCISED	NET CHANGE OTHER #	BALANCE 30 JUNE 2014
Directors					
Nicholas Mather	2,719,855	-	-	-	2,719,855
Philip McNamara	3,450,000	-	-	(3,450,000)	-
William Stubbs	410,000	-	-	-	410,000
Roland Sleeman	50,000	-	-	10,000	60,000
Jeremy Barlow	2,005,000	-	-	(2,005,000)	-
Stephen Bizzell	1,310,000	-	-	-	1,310,000
Other Key Management Personnel					
Robbert de Weijer	-	74,534	-	380,951	455,485
Chris Ohlrich	-	56,968	-	-	56,968
Raymond Johnson	473,301	-	-	(473,301)	-
Roger Cressey	209,629	64,929	-	(274,558)	-
Karl Schlobohm	-	16,413	-	36,030	52,443
Priy Jayasuriya	-	11,447	-	43,180	54,627
Total	**10,627,785**	**244,291**		**(5,732,698)**	**5,119,378**

"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.

There were no shares held nominally at 30 June 2014.

Option holdings

CURRENT YEAR	BALANCE 1 JULY 2013	GRANTED AS RENUMERATION	OPTIONS EXERCISED	NET CHANGE OTHER #	BALANCE 30 JUNE 2014	TOTAL VESTED	TOTAL VESTED AND EXERCISABLE	TOTAL VESTED AND UNEXERCISABLE
Directors								
Nicholas Mather	1,943,417	-	-	-	1,943,417	1,943,417	1,943,417	-
Philip McNamara	7,762,500	-	-	(7,762,500)	-	-	-	-
William Stubbs	602,500	-	-	(70,000)	532,500	532,500	532,500	-
Roland Sleeman	512,500	-	-	2,500	515,000	515,000	515,000	-
Jeremy Barlow	1,000,000	-	-	(1,000,000)	-	-	-	-
Stephen Bizzell	5,205,000	-	-	(140,000)	5,065,000	5,065,000	5,065,000	-
Other Key Management Personnel								
Robbert de Weijer	-	9,000,000	-	-	9,000,000	3,999,999	3,999,999	-
Chris Ohlrich	-	4,500,000	-	-	4,500,000	2,000,001	2,000,001	-
Raymond Johnson	4,057,500	-	-	(4,057,500)	-	-	-	-
Roger Cressey	2,020,000	400,000	-	(20,000)	2,400,000	2,400,000	2,400,000	-
Karl Schlobohm	169,348	100,000	-	(51,848)	217,500	217,500	217,500	-
Priy Jayasuriya	500,000	100,000	-	-	600,000	600,000	600,000	-
TOTAL	**23,772,765**	**14,100,000**	**-**	**(13,099,348)**	**24,773,417**	**17,273,417**	**17,273,417**	**-**

"Net Change Other" above includes the balance of options held on appointment / resignation, and options acquired or sold for cash on similar terms and conditions to other shareholders.

There were no share options held nominally at 30 June 2014 (2013: nil).

8. Other transactions with Key Management Personnel

KEY MANAGEMENT PERSONNEL		SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	OTHER TRANSACTIONS WITH RELATED PARTIES
Bizzell Capital Partners	2014	-	-	-
	2013	-	125,000	-

Mr. Stephen Bizzell (a Director), is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. The Company entered into an agreement with Bizzell Capital Partners Pty Ltd as Lead Manager for the April 2012 IPO. A lead manager fee was payable of two (2) per cent of the funds raised under the IPO ($75 million), five (5) million Options exercisable at $0.50 expiring 31 August 2014, and a five (5) per cent firm offer fee on monies raised by the lead manager in excess of the underwritten amount. An ongoing corporate advisory fee of $12,500 per month was payable for a minimum of 12 months following the IPO, and expired at the end of April 2013.

For the year ended 30 June 2014, $nil (2013: $125,000) was paid or payable to Bizzell Capital Partners for the provision of lead management and consultancy services. The services were based on normal commercial terms and conditions. The total amount outstanding at year end was $nil (2013: $6,875).

(End of Remuneration Report)

DIRECTORS' REPORT

DIRECTORS' MEETINGS

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows:

	BOARD MEETINGS		AUDIT & RISK		RENUMERATION COMMITTEE	
	NUMBER OF MEETINGS HELD WHILE IN OFFICE	MEETINGS ATTENDED	NUMBER OF MEETINGS HELD WHILE IN OFFICE	MEETINGS ATTENDED	NUMBER OF MEETINGS HELD WHILE IN OFFICE	MEETINGS ATTENDED
Nicholas Mather	11	11	-	-	-	-
Phil McNamara	-	-	-	-	-	-
Bill Stubbs	11	11	2	2	-	-
Roland Sleeman	11	11	2	2	1	1
Jeremy Barlow	8	8	-	-	-	-
Stephen Bizzell	11	11	2	2	1	1

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR

Each of the Directors, the Chief Executive Officer and Secretary of the Company has entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company to those Directors. The Company has insured all of the Directors. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act does not require disclosure of the information in these circumstances. The Company has not indemnified or insured its auditor.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Directors are not aware of any significant changes in the state of affairs of the Company after the balance date that is not covered in this report.

OPTIONS

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

GRANT DATE	DATE OF EXPIRY	EXERCISE PRICE	NUMBER UNDER OPTION
4 November 2011	4 November 2014	$0.50	500,000
21 November 2011	21 November 2014	$0.50	2,000,000
1 December 2011	1 December 2014	$0.50	4,000,000
6 February 2012	6 February 2015	$0.50	1,400,000
12 February 2012	12 February 2015	$0.50	2,000,000
16 April 2012	16 April 2015	$0.50	1,000,000
22 January 2013	7 May 2015	$0.50	300,000
24 July 2013	24 July 2018	$0.50	2,500,000
24 July 2013	24 July 2018	$0.75	2,500,000
24 July 2013	24 July 2018	$1.00	2,500,000
25 July 2013	2 September 2016	$0.50	100,000
25 July 2013	26 August 2018	$0.50	1,250,000
25 July 2013	26 August 2018	$0.75	1,250,000
25 July 2013	26 August 2018	$1.00	1,250,000
26 February 2014	25 February 2017	$0.26	3,130,000

Option holders do not have any rights under the options to participate in any share issue of the Company or any other entity. There were no options exercised up to the date of this report.

NON-AUDIT SERVICES

The following non-audit services were provided by the Company's auditor BDO Audit Pty Ltd. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

BDO Audit Pty Ltd received the following amounts for the provision of non-audit services:

Tax services $12,734

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behavior and accountability, the Directors of the Company support and have adhered to the principles of corporate governance.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 48.

Signed in accordance with a resolution of Directors:

Nicholas Mather
Executive Chairman

Brisbane
Date: 25 September 2014

Competent Persons Statements

The 17 July 2012, Prospective Resource Estimate for the Greater Cow Lagoon structure in EP 176 used in this report was compiled by Raymond L Johnson Jr, General Manager Exploration and Production for Armour Energy, who is qualified in accordance with the requirements of ASX listing rule 5.11 and has consented to the use of the resource figures in the form and context in which they appear in this report.

The 30 October 2012, Prospective Resource Estimate covering the EP171 portion of the Glyde Sub-Basin in the Northern Territory used in this report was compiled by Raymond L Johnson Jr, General Manager Exploration and Production for Armour Energy, who is qualified in accordance with the requirements of ASX listing rule 5.11 and has consented to the use of the resource figures in the form and context in which they appear in this report.

The Prospective Resource Estimates covering the Barney Creek Shale in EP 171 and EP 176 in the Northern Territory used in this report were, where indicated, compiled by MBA Petroleum Consultants, and detailed in the Independent Expert's Report, Replacement Prospectus dated 20 March 2012 for Armour Energy (Chapter 9).

The 12 February 2013 Prospective Resource Estimate covering the Coxco Dolomite in EPs 171, 176 and 190 used in this report was compiled by Raymond L Johnson Jr, General Manager Exploration and Production for Armour Energy, who is qualified in accordance with the requirements of ASX listing rule 5.11 and has consented to the use of the resource figures in the form and context in which they appear in this report.

The 24 April, 2013, Prospective Resource Estimates covering the Coxco Dolomite in EPs 171, 176 and 190 and Contingent Resource Estimate covering Coxco Dolomite relating to Glyde 1 ST1, used in this report were compiled by DeGolyer and MacNaughton, who are qualified in accordance with the requirements of ASX listing rule 5.11 and has consented to the use of the resource figures in the form and context in which they appear in this report.

The 26 November, 2013, Prospective Resource Estimate covering the Coxco Dolomite in EPs 171, 176 and 190, used in this report were compiled by SRK Consulting, who are qualified in accordance with the requirements of ASX listing rule 5.11 and has consented to the use of the resource figures in the form and context in which they appear in this report.

The estimated quantities of Prospective petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons. Probabilistic volumes are reported in all cases.
All Contingent and Prospective Resources are 100% to Armour Energy Limited.

DECLARATION OF INDEPENDENCE

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DECLARATION OF INDEPENDENCE BY DAMIAN WRIGHT TO THE DIRECTORS OF ARMOUR ENERGY LIMITED

As lead auditor of Armour Energy Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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

D P Wright

Director

BDO Audit Pty Ltd

Brisbane, 25 September 2014

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 15 SEPTEMBER 2014.

(A) DISTRIBUTION SCHEDULE

Fully Paid Ordinary Shares, and Options

	ORDINARY SHARES		UNQUOTED $0.50 OPTIONS EXERCISABLE ON OR BEFORE 11 OCTOBER 2014		ESOP OPTIONS EXERCISABLE AT $0.26	
	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF OPTIONS	NUMBER OF HOLDERS	NUMBER OF OPTIONS
1 – 1000	29	5,181	–	–	–	–
1,001 – 5,000	230	803,665	–	–	–	–
5,001 – 10,000	326	2,876,190	–	–	–	–
10,001 – 50,000	850	23,734,341	–	–	3	80,000
50,001 – 100,000	207	16,455,379	3	1,500,000	–	–
100,000+	248	257,824,340	–	–	9	3,050,000
TOTAL	1,890	301,699,096	3	1,500,000	12	3,130,000

	ESOP OPTIONS EXERCISABLE AT $0.50		ESOP OPTIONS EXERCISABLE AT $0.75		ESOP OPTIONS EXERCISABLE AT $1.00	
	NUMBER OF HOLDERS	NUMBER OF SHARES	NUMBER OF HOLDERS	NUMBER OF OPTIONS	NUMBER OF HOLDERS	NUMBER OF OPTIONS
1 – 1000	–	–	–	–	–	–
1,001 – 5,000	–	–	–	–	–	–
5,001 – 10,000	–	–	–	–	–	–
10,001 – 100,000	–	–	–	–	–	–
100,000+	11	15,050,000	2	3,750,000	2	3,750,000
TOTAL	11	15,050,000	2	3,750,000	2	3,750,000

The number of security investors holding less than a marketable parcel of securities is 269, and they hold 863,514 securities.

(B) TWENTY LARGEST HOLDERS

ORDINARY SHARES:			
1	DGR GLOBAL LIMITED	75,050,000	24.88%
2	NATIONAL NOMINEES LIMITED	28,361,079	9.40%
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	17,908,613	9.40%
4	BT PORTFOLIO SERVICES LIMITED	11,900,000	3.94%
5	CITICORP NOMINEES PTY LIMITED	9,497,238	3.15%
6	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	7,789,255	2.58%
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,811,032	1.93%
8	LUJETA PTY LTD	4,050,000	1.34%
9	CAPITA TRUSTEES LIMITED	4,000,000	1.33%
10	ROOKHARP INVESTMENTS PTY LIMITED	3,150,000	1.04%
11	CPS CONTROL SYSTEMS PTY LIMITED	2,700,000	0.89%
12	DIAB INVESTMENTS PTY LTD	2,500,000	0.83%
13	G HARVEY NOMINEES PTY LTD	2,063,969	0.68%
14	MR JEREMY WARDE BARLOW	2,000,000	0.66%
15	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	1,893,987	0.63%
16	SAMUEL CAPITAL LIMITED	1,819,855	0.60%
17	GRAHAM & LINDA HUDDY NOMINEES PTY LTD	1,750,000	0.58%
18	MR ANDREW JAMES LEES	1,729,525	0.57%
19	MR THOMAS CHARLES GOODWIN & MRS SUSAN MAREE GOODWIN	1,500,000	0.50%
20	THUMBTACKS PTY LTD	1,382,300	0.46%
TOP 20		**186,856,853**	**61.93%**
TOTAL		**301,699,096**	**100.00%**

(C) SUBSTANTIAL SHAREHOLDERS

The Company has received substantial shareholding notices from the following parties:

NAME	NUMBER OF SHARES	%
DGR Global Limited	75,050,000	25.02%
JP Morgan Chase & Co (and affiliates)	21,186,239	7.03%
Och Ziff Funds	31,812,009	10.54%

(D) VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

(E) RESTRICTED SECURITIES

There are no restrictions over any security holdings as at 30 June 2014.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Armour Energy Ltd is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Armour Energy Ltd and its subsidiaries on behalf of the shareholders by whom they are elected and to whom they are accountable.

Armour Energy Ltd's Corporate Governance Statement was adopted on 8 November 2011, and is structured with reference to the Australian Securities Exchange ("ASX") Corporate Governance Council's (the "Council") "Corporate Governance Principles and Recommendations, 2nd Edition", which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the Board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Remunerate fairly and responsibly

A copy of the eight Corporate Governance Principles and Recommendations can be found on the ASX's website.

The Company's Corporate Governance Charter can be obtained, at no cost, from the Company's registered office and is also available on the Company's website www.armourenergy.com.au.

This statement outlines the main corporate governance policies, which the Directors have adopted.

COMMITTEES

The Board has established an Audit and Risk Management Committee comprising Mr Stephen Bizzell, Mr Bill Stubbs and Mr Roland Sleeman. The Company has adopted an Audit and Risk Management Charter setting out the composition, purpose, powers and scope of the Committee as well as reporting requirements to the Board as a whole. Extracts of this Charter are available at the Company's website (www.armourenergy.com.au).

Subsequent to year end, a Remuneration Committee was established, which meets at least once a year and is responsible for making decisions on Directors' and key management personnel's remuneration packages, and is represented by Roland Sleeman and Stephen Bizzell.

The Company does not have any other formally constituted committees of the Board of Directors. The Directors consider that the Company is not of a size nor are its affairs of such complexity as to justify the formation of any other special or separate committees at this time. The Board as a whole is able to address the governance aspects of the Company's activities and ensure that it adheres to appropriate ethical standards.

COMPOSITION OF THE BOARD

The Board is currently comprised of 4 Directors. The names, qualifications and relevant experience of each current Director are set out in the Directors Report. There is no requirement for any Director's shareholding qualification.

As the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to adequately supervise the Company's activities determined within the limitations imposed by the Constitution.

BOARD MEMBERSHIP

The Board acts as a nomination committee. Members of the Board have been brought together to provide a blend of qualifications, skills and national and international experience required for managing a company operating within the mining industry.

APPOINTMENT AND RETIREMENT OF DIRECTORS

The Company's Constitution provides that Directors are subject to retirement by rotation, by order of length of appointment. Retiring Directors are eligible for re-election by Shareholders at the annual general meeting of the Company.

DUTIES OF DIRECTORS

Directors are expected to accept all duties and responsibilities associated with the running of a public company, to act in the best interests of the Company and to carry out their duties and responsibilities with due care and diligence. Directors are required to take into consideration conflicts when accepting appointments to other boards. Accordingly, Directors wishing to accept appointment to other boards must first seek approval from the Board, approval of which will not be unreasonably withheld.

INDEPENDENT PROFESSIONAL ADVICE

The Board has determined that individual Directors may, in appropriate circumstances, engage outside advisers at the Company's expense. The engagement of an outside adviser is subject to the prior approval of the Board, which will not be unreasonably withheld.

COMPENSATION ARRANGEMENTS

The maximum aggregate amount payable to non-executive Directors as Director's fees has been set at five hundred thousand dollars ($500,000) per annum. The Constitution provides that Director's fees can only change pursuant to a resolution at a general meeting.

The Board is responsible for reviewing and negotiating the compensation arrangements of senior executives and consultants.

INTERNAL MANAGEMENT CONTROLS

The Company's assets are located in Australia. Control over the operations is exercised by senior management. The Board also monitors the performance of outside consultants engaged from time to time to complete specific projects and tasks.

IDENTIFYING SIGNIFICANT BUSINESS RISKS

The Board regularly monitors the operational and financial performance of the Company's activities. It monitors and receives advice on areas of operation and financial risk and considers strategies for appropriate risk management. All operational and financial strategies adopted are aimed at improving the value of the Company's Shares, however, the Directors recognise that mineral exploration and evaluation is inherently risky.

ASX CORPORATE GOVERNANCE

To further enhance listed entities' disclosure of corporate governance issues, the ASX Corporate Governance Council (the "Council") was established on 1 August 2002. The Council was established for the purpose of setting an agreed set of corporate governance standards of best practice for Australian listed entities. The Council has released its second edition of Corporate Governance Principles and Recommendations (ASX Guidelines) which will apply to a Company's financial statements upon listing on the ASX. The ASX Guidelines articulate core principles that the Council believes underlie good corporate governance. The ASX Guidelines provide that a listed entity's Annual Report is required to disclose its main corporate governance practices and also the extent to which the entity complies with the ASX Guidelines and where it does not, to explain why.

TRADING POLICY

The Directors and Executives of the Company are subject to a number of restrictions in relation to them dealing in Shares of the Company, all of which are incorporated in a Trading Policy which is part of the Company's Corporate Governance Policies and Procedures.
Directors and Executives are specifically precluded from dealing in Shares during certain "close" periods, with specific exceptions (e.g. participation in rights issues, etc). Prior to any dealing in Shares the Director or Executive must seek, and receive, written clearance for the intended transaction from the Chairman of the Board.

DIVERSITY POLICY

The recruitment and selection processes adopted by the Company ensure that staff and management are selected in a non-discriminatory manner based on merit.
The Company also values diversity in the organisation. In light of recent amendments to the ASX's Corporate Governance Principles, the Company has developed a formal Diversity Policy which is available on the Company's website (www.armourenergy.com.au).

The Company respects and values the competitive advantage of diversity (which includes but is not limited to gender, age, ethnicity and cultural background), and the benefit of its integration throughout the Company in order improve corporate performance, increase shareholder value and maximise the probability of achievement of

CORPORATE GOVERNANCE
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the Company's goals. However, given that the Company was only listed earlier this year, it is yet to consider the establishment of formal and measureable objectives, having regard to the nature and scale of its activities.

The Company currently has 7 employees, but no female Directors or executives. The Company employs a total of 2 female employees (28% of the total employee number). Further, under a contractual agreement with DGR Global, various services of an administrative, accounting and business development nature are provided, and whose staff include female executives and employees directly involved in the provision of services to Armour Energy.

CORPORATE GOVERNANCE CHARTER

The Company has adopted a Corporate Governance Charter dated 28 May 2010 (Corporate Governance Charter) in order to implement and maintain a culture of good corporate governance both internally and in its external dealings. In adopting the Corporate Governance Charter the Board is mindful of the ASX Guidelines. The original Corporate Governance Charter has also been supplemented by the adoption of a Trading Policy and a Diversity Policy, both of which are summarised above.

In addition to any matters specifically addressed above, the following table briefly addresses the areas where the Company has departed from the ASX Guidelines. Where the Company's Corporate Governance practices do not correlate with the practices recommended by the Council, the Company is working towards compliance; however it does not consider that all practices are appropriate for the Company due to the size and scale of Company operations.

The Board is of the view that with the exception of the departures from the ASX Guidelines noted above and / or set out in the following table it otherwise complies with all of the ASX Guidelines.

AREAS WHERE THE COMPANY HAS DEPARTED FROM THE ASX GUIDELINES

ASX PRINCIPLES AND RECOMMENDATIONS	SUMMARY OF THE COMPANY'S POSITION
Principle 1 – Lay Solid Foundations for Management and Oversight	
Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives	The Board has not established a separate nomination committee. In the absence of a formally constituted nomination committee, the full Board is responsible for the proper oversight of the CEO and senior management. The Board considers that given its size, no efficiencies or other benefits would be gained by establishing a separate committee.
Recommendation 2.1 – A majority of the Board should be independent Directors	Presently under the ASX Guidelines it is considered that there is only one independent Director. While the Company does not presently comply with this Recommendation 2.1, the Company may consider appointing further independent Directors in the future. The Company believes that given the size and scale of its operations, non-compliance with this Recommendation 2.1 will not be detrimental to the Company.
Recommendation 2.2 – The Chair should be an independent Director	Nicholas Mather is the Chairman of the Company, but is not considered to be independent under the ASX Guidelines. The Company is of the view that the size and scale of its current operations do not warrant the appointment of an independent Chairperson and that non-compliance with this Recommendation 2.2 will not be detrimental to the Company.
Principle 2 – Structure Board to Add Value	
Recommendation 2.4 – The Board should establish a nomination committee	The Board's view is that the Company is not currently of the size to justify the formation of a separate Nomination Committee. The Board currently performs the functions of a Nomination Committee and where necessary will seek the advice of external advisors in relation to this role. The Board shall, upon the Company reaching the requisite corporate and commercial maturity, approve the constitution of a Nomination Committee to assist the Board in relation to the appointment of Directors and senior management.

ASX PRINCIPLES AND RECOMMENDATIONS	SUMMARY OF THE COMPANY'S POSITION
Principle 4 – Safeguard Integrity in Financial Reporting	
Recommendation 4.2 – The audit committee should be structured so that it: - Consists of only non-executive Directors - Consists of a majority of independent Directors - Is chaired by an independent chair, who is no chair of the board - Has at least 3 members	The Company's Audit and Risk Management Committee is comprised of Messrs. Stubbs, Bizzell and Sleeman. Mr. Stephen Bizzell is a non-executive Director and the current Chairman of the Audit and Risk Management Committee. The Company does not consider Mr. Bizzell to be an independent Director as defined in the ASX Guidelines on the basis that he is a Director of Bizzell Capital Partners Pty Ltd, an entity that managed the Company's IPO in 2012. Mr. Bill Stubbs is a Non-Executive Director. The Company does not consider Mr. Stubbs to be an independent Director as defined in the ASX Guidelines on the basis that he is a Director of DGR Global Ltd, a substantial shareholder in the Company. Mr. Roland Sleeman is a Non-Executive Director. The Company considers Mr. Sleeman to be an independent Director as defined in the ASX Guidelines. On the basis of the above information, the Company is of the view that there is a possibility that the Committee does not consist of a majority of independent Directors. Whilst the Company does not presently comply with Recommendation 4.2 it will, upon reaching the requisite corporate and commercial maturity, reconfigure the Committee to comply with this Recommendation.
Principle 7 – Recognise and Manage Risk	
Recommendation 7.2 – The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	The Board is responsible for reviewing and ratifying systems of risk management and internal compliance.
Principle 8 – Remunerate Fairly and Responsibly	
Recommendation 8.2 – The Board should establish a remuneration committee	The Company's Remuneration Committee is comprised of Messrs. Sleeman and Bizzell, which meets at least once a year and is responsible for making decisions on Directors' and key management personnel's remuneration packages. Currently the Remuneration Committee is not structured with a majority of independent Directors (Mr Sleeman being the only independent Director under the ASX guidelines), nor does it currently have a minimum of three (3) members. However the Company is of the view that the size and scale of its current operations do not warrant the appointment of further independent Directors and that non-compliance with this Recommendation 8.2 will not be detrimental to the Company.

INTEREST IN TENEMENTS

As at the date of this report, the Company has an interest in the following tenements.

TENEMENT	% INTEREST	GRANT DATE	APPLICATION DATE	EXPIRY DATE	TERM
EP 171	100	29/06/11	N/A	29/06/16	5 years
EP 176	100	29/06/11	N/A	29/06/16	5 years
EP 172	100	N/A	19/12/09	N/A	5 years
EP 173	100	N/A	19/12/09	N/A	5 years
EP 174	100	11/12/12	N/A	10/12/17	5 years
EP 177	100	N/A	06/04/10	N/A	5 years
EP 178	100	N/A	08/04/10	N/A	5 years
EP 179	100	N/A	08/04/10	N/A	5 years
EP 190	100	11/12/12	N/A	10/12/17	5 years
EP 191	100	03/10/13	N/A	2/10/18	5 years
EP 192	100	03/10/13	N/A	2/10/18	5 years
EP 193	100	N/A	13/08/10	N/A	5 years
EP 194	100	N/A	13/08/10	N/A	5 years
EP 195	100	N/A	13/08/10	N/A	5 years
EP 196	100	N/A	13/08/10	N/A	5 years
ATP 1087	100	19/12/12	N/A	18/12/16	4 years
ATP 1107	100	N/A	30/05/12	N/A	4 years
EPM 19795*	100	26/06/14	N/A	25/06/17	3 years
EPM 19796*	100	N/A	31/07/12	N/A	3 years
EPM 19797*	100	26/06/14	N/A	25/06/17	3 years
EPM 19833*	100	11/02/13	N/A	10/02/16	3 years
EPM 19835*	100	11/09/13	N/A	10/09/16	3 years
EPM 19836*	100	11/09/13	N/A	10/09/16	3 years
EPM 25153*	100	N/A	03/01/13	N/A	3 years
EPM 25410*	100	29/05/14	N/A	28/05/17	3 years
EPM 25411*	100	26/06/14	N/A	25/06/17	3 years
EPM 25412*	100	26/06/14	N/A	25/06/17	3 years
EPM 25413*	100	26/06/14	N/A	25/06/17	3 years
EPM 25414*	100	29/05/14	N/A	28/05/17	3 years
EPM 25415*	100	26/06/14	N/A	25/06/17	3 years
EPM 25504*	100	N/A	14/02/14	N/A	3 years
EPM 25505*	100	N/A	14/02/14	N/A	3 years
ELM 29837*	100	27/08/13	N/A	26/08/19	6 years
ELM 29951*	100	21/11/13	N/A	20/11/19	6 years
ELM 29952*	100	21/11/13	N/A	20/11/19	6 years
ELM 29953*	100	18/02/14	N/A	17/02/20	6 years
ELM 29954*	100	21/11/13	N/A	20/11/19	6 years
ELM 29955*	100	21/11/13	N/A	20/11/19	6 years
ELM 30076*	100	09/05/14	N/A	08/05/20	6 years
ELM 30077*	100	09/05/14	N/A	08/05/20	6 years
ELM 30078*	100	09/05/14	N/A	08/05/20	6 years
ELM 30079*	100	09/05/14	N/A	08/05/20	6 years
ELM 30080*	100	09/05/14	N/A	08/05/20	6 years

*Tenements held by Ripple Resources Pty Ltd

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2014

	NOTES	2014 $	2013 $
Revenue	2a	505,409	2,335,368
Other income	2b	1,434,508	2,450,000
Revenue and other income		**1,939,917**	**4,785,368**
Administration and consulting expenses		(2,644,693)	(2,771,313)
Depreciation		(70,487)	(58,360)
Employee benefits expenses		(2,002,172)	(1,420,508)
Legal expenses		(200,398)	(573,057)
Finance costs		(367)	(1,573)
Share based payments expense		(1,837,800)	(384,027)
Profit (loss) before income tax	3	**(4,816,000)**	**(423,470)**
Income tax benefit (expense)	4	3,121,582	2,003,370
Profit (loss) for the year		**(1,694,418)**	**1,579,900**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Change in fair value of available for sale financial assets		(4,028,000)	
Income tax on items that may be reclassified to profit or loss		1,208,400	
Other comprehensive income, net of tax		(2,819,600)	
Total comprehensive income for the year		**(4,514,018)**	**1,579,900**
Earnings per share		**cents/ share**	**cents/ share**
Basic earnings per share	7	(0.6)	0.5
Diluted earnings per share	7	(0.6)	0.5

The above consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	NOTES	2014 $	2013 $
Current assets			
Cash and cash equivalents	8	6,474,941	37,053,394
Trade and other receivables	9	119,159	1,013,574
Other current assets	10	298,440	785,822
Consumables		1,159,682	1,395,455
Total current assets		**8,052,222**	**40,248,245**
Non-current assets			
Other financial assets	11	7,406,817	10,166,027
Property, plant and equipment	12	170,309	243,999
Exploration and evaluation assets	13	70,283,772	43,258,305
Total non-current assets		**77,860,898**	**53,668,331**
TOTAL ASSETS		**85,913,120**	**93,916,576**
Current liabilities			
Trade and other payables	14	634,241	8,995,294
Provision	15	53,828	106,380
Total current liabilities		**688,069**	**9,101,674**
Non-current liabilities			
Deferred tax liabilities	4	2,799,721	24,334
Total non-current liabilities		**2,799,721**	**24,334**
TOTAL LIABILITIES		**3,487,790**	**9,126,008**
NET ASSETS		**82,425,330**	**84,790,568**
Equity			
Issued capital	16	83,709,866	83,362,886
Reserves	18	1,520,269	2,538,069
Accumulated losses		(2,804,805)	(1,110,387)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF ARMOUR ENERGY LTD		**82,425,330**	**84,790,568**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	ISSUED CAPITAL $	ACCUMULATED LOSSES $	FINANCIAL ASSETS REVALUATION RESERVE $	PERFORMANCE SHARE RESERVE $	PERFORMANCE RIGHTS RESERVE $	OPTION RESERVE $	TOTAL EQUITY $
Balance at 1 July 2012	**81,654,388**	**(2,690,287)**	**1,575,000**	**135,133**	**23,769**	420,140	81,118,143
Profit for the year	-	1,579,900	-	-	-	-	1,579,900
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	1,579,900	-	-	-	-	1,579,900
Tax losses transferred to head company	-	-	-	-	-	-	-
Shares issued during the year	-	-	-	-	-	-	-
Share issue costs	(172,356)	-	-	-	-	-	(172,356)
Recognition of deferred tax assets relating to share issue costs	1,880,854	-	-	-	-	-	1,880,854
Share based payments	-	-	-	17,975	62,414	303,638	384,027
Balance at 30 June 2013	**83,362,886**	**(1,110,387)**	**1,575,000**	**153,108**	**86,183**	**723,778**	**84,790,568**
Loss for the year	-	(1,694,418)	-	-	-	-	(1,694,418)
Other comprehensive income	-	-	(2,819,600)	-	-	-	(2,819,600)
Total comprehensive income for the year	-	(1,694,418)	(2,819,600)	-	-	-	(4,514,018)
Tax losses transferred to head company	-	-	-	-	-	-	-
Shares issued during the year	349,535	-	-	(36,000)	-	-	313,535
Share issue costs	(3,650)	-	-	-	-	-	(3,650)
Recognition of deferred tax assets relating to share issue costs	1,095	-	-	-	-	-	1,095
Share based payments	-	-	-	7,892	38,817	1,791,091	1,837,800
Balance at 30 June 2014	**83,709,866**	**(2,804,805)**	**(1,244,600)**	**125,000**	**125,000**	**2,514,869**	**82,425,330**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	NOTES	2014 $	2013 $
Cash flows from operating activities			
Payments to suppliers and employees		(5,043,710)	(4,738,260)
Interest expensed		(367)	(1,573)
Interest received		831,692	2,257,470
Research and Development tax refund		7,106,464	3,908,558
Fuel Tax Credits		322,728	-
Other income		2,791	-
Net cash flows from operating activities	19	**3,219,598**	**1,426,195**
Cash flows from investing activities			
Receipts of/ (payments for) security deposits		(157,010)	202,066
Investment in convertible notes		-	(2,450,000)
Interest received on convertible notes		133,600	122,500
Purchase of property, plant and equipment		(26,895)	(87,249)
Payments for exploration and evaluation assets		(33,809,095)	(22,245,328)
Net cash flows from investing activities		**(33,859,400)**	**(24,458,011)**
Cash flows from financing activities			
Proceeds from the issue of shares		65,000	-
Transactions costs on the issue of shares		(3,651)	(1,240,306)
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash flows from financing activities		**61,349**	**(1,240,306)**
Net increase (decrease) in cash and cash equivalents		(30,578,453)	(24,272,121)
Cash and cash equivalents at the beginning of the year		37,053,394	61,325,515
Cash and cash equivalents at the end of the year	8	**6,474,941**	**37,053,394**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

The financial report of Armour Energy Ltd for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 25 September 2014.

Armour Energy Ltd (the Company) is a public company limited by shares incorporated and domiciled in Australia. The Company's registered office is located at Level 27, 111 Eagle Street, Brisbane, QLD 4000.

The nature of the operations and principal activities of the Company are described in the Director's report.

BASIS OF PREPARATION

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial report covers Armour Energy Ltd and its subsidiary, and is presented in Australian dollars.

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of Armour Energy Ltd comply with International Financial Reporting Standards (IFRS).

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. At 30 June 2014 the Company had $6.4 million in cash and had not generated revenues from operations. As such, the Company's ability to continue to adopt the going concern assumption will depend upon a number of matters in the 2015 financial year including successful future capital raisings of necessary funding, entering into a joint venture or farm-in agreement with respect to its tenements, the realisation of its investments in listed securities, the receipt of the Research & Development tax refund, and the successful exploration and exploitation of the Company's tenements. In the absence of these matters being successful in the short term, there exists a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and therefore, it may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report.

ACCOUNTING POLICIES

(a) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2013:

REFERENCE	TITLE	APPLICATION DATE OF STANDARD	APPLICATION DATE OF COMPANY
AASB 9	Financial Instruments	1 January 2017	1 July 2013
AASB 10	Consolidated Financial Statements	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	1 January 2013	1 July 2013
AASB 13	Fair Value Measurements	1 January 2013	1 July 2013
AASB 2011-8	Amendments to Australian Accounting standards arising from AASB 13	1 January 2013	1 July 2013
AASB 119	Employee Benefits (September 2011)	1 January 2013	1 July 2013
AASB 2011-10	Amendments to Australian Accounting standards arising from AASB 119 (September 2011)	1 January 2013	1 July 2013
AASB 127	Amendments to Australian Accounting standards arising from AASB 119 (September 2011)	1 January 2013	1 July 2013
AASB 128	Investments in Associates and Joint Ventures	1 January 2013	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124 Amendments)	1 January 2013	1 July 2013
AASB 2011-7	Amendments to the Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	1 January 2013	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	1 January 2013	1 July 2013
AASB 2012-10	Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments	1 January 2013	1 July 2013

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

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ended 30 June 2014. The Consolidated Entity is yet to evaluate the impact of those standards and interpretations on the financial statements.

The Company anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information of new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below.

REFERENCE	TITLE	APPLICATION DATE OF STANDARD	APPLICATION DATE OF COMPANY
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014	1 July 2014
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	1 July 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1 July 2014
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities	1 January 2014	1 July 2014

(b) Basis of Consolidation

Subsidiaries

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

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(c) Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Company's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured.

(d) Operating Segments

An operating segment is a component of an entity 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 maker 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 that meet the quantitative criteria as prescribed by AASB 8 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.

Information about operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(e) Cash and Cash Equivalents

For the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(f) Trade and Other Receivables

Receivables, generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Consumables

Consumables comprise drilling consumables that are valued at cost on a first in first out basis.

(h) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial

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assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Classification and Subsequent Measurement

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

(iii) Available for sale financial assets – prior to 1 July 2013

Available for sale financial assets comprise investments in listed entities that are designated in this category. After initial recognition, these investments are measured at fair value with gains or losses recognised through other comprehensive income. Any gains or losses arising from the sale of these investments are reclassified through profit or loss.

(iv) Financial assets at fair value through other comprehensive income – from 1 July 2013

Equity investments are classified as being at fair value through Other Comprehensive Income. After initial recognition at fair value (being cost), the Company has elected to present in Other Comprehensive Income changes in the fair value of equity instrument investments.

Unrealised gains and losses on investments are recognised in the financial assets revaluation reserve until the investment is sold or otherwise disposed of, at which time the cumulative gain or loss is transferred to retained earnings.

The Company derecognises an investment when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 9. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the financial assets revaluation reserve to profits appropriation reserve.

(v) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as non-current assets until the consolidated entity makes a decision to sell. These assets are measured at fair value with gains or losses recognised in the profit or loss.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value of all other financial assets and liabilities, where appropriate, including recent arm's length transactions, reference to similar instruments and option pricing models.

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other revenue when the Company's right to receive payments is established (see note 11) and as long as they represent a return on investment.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other income or other expenses in the income statement as applicable. Interest income from these financial assets is included in the net gains/(losses). Dividend income is presented as other revenue.

Details on how the fair value of financial instruments is determined are disclosed in note 11.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit of loss.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined from available information such as quoted market prices or by calculating the net present value of future anticipated cash flows. In estimating these cash flows, management makes judgments about a counter-party's financial situation and the net realisable value of any underlying collateral. Impairment losses are recognised in the profit or loss.

Where there is objective evidence that an available for sale financial asset is impaired (such as a significant or prolonged decline in the fair value of an available for sale financial asset), the cumulative loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When a subsequent event reduces the impairment of an available for sale debt security the impairment loss is reversed through profit or loss. When a subsequent event reduces the impairment of an available for sale equity instrument the fair value increased is recognised in other comprehensive income.

Impairment losses on assets measured at amortised cost using the effective interest rate method are calculated by comparing the carrying value of the asset with the present value of estimated future cash flows at the original effective interest rate.

(i) Property, Plant & Equipment

Property, plant & equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant & equipment constructed within the Company includes the cost of materials, direct labour, borrowing costs and an appropriate portion of fixed and variable costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial year in which they are incurred.

Depreciation

The depreciable amount of all property, plant & equipment is depreciated over their useful life to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

CLASS OF PROPERTY, PLANT & EQUIPMENT	DEPRECIATION
Motor Vehicles	20% Straight line
Office Equipment	20% - 33.3% Straight line
Plant and Equipment	20% Straight line

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the profit or loss.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(j) 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 amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Costs of site restoration are provided over the life of the area from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that restoration will be completed within one year of abandoning the site.

(k) Impairment of Assets

At each reporting date, the Company 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 asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(l) Trade and Other Payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition.

(m) Provisions and Employee Benefits

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

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.

Employee benefits

(i) Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date. They 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.

(ii) Other long-term employee benefits

The liability for annual leave and long service leave 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 national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Defined contribution superannuation expense

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

(n) Leases

Leases of property, plant & equipment where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Company are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the year.

Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the Company will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

(o) Share Capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

(p) Share-Based Payments

The Company may provide benefits to Directors, employees or consultants in the form of share-based payment transactions, whereby services may be undertaken in exchange for shares or options over shares ("equity-settled transactions").

The fair value of shares and options granted to Directors, employees and consultants is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the recipients become unconditionally entitled to the instruments. For options, fair value is determined using a Black-Scholes option pricing model.

Where the terms of equity instruments granted are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where equity instruments granted are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the profit or loss. If new instruments are substituted for the cancelled instruments and designated as a replacement, the combined impact of the cancellation and replacement instruments are treated as if they were a modification.

(q) 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 principle 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 interest. 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 each reporting date and transfers between levels are determined based on a reassessment of the lowest level 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.

(r) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

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.

All revenue is stated net of the amount of goods and services tax (GST).

(s) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates expected to apply to the period when the asset is realised or liability is settled based on tax rates (and laws) that have been enacted or substantially enacted by the reporting date.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences and unused tax losses can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same

taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the

respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Current and deferred tax is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(t) GST

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

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

(u) Earnings Per Share

Basic earnings per share is calculated as net profit (loss) attributable to owners of the Company, adjusted to exclude any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the year, adjusted for any bonus element.

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:

- The after tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(v) Comparatives

When required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(w) Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key estimates – impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company 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 judgments – exploration & evaluation assets

The Company 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 2014, 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".

Exploration and evaluation assets at 30 June 2014 were $70,283,772 (2013: $43,258,305).

(x) Change in Accounting Policy

AASB9 introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align risk management activities undertaken by entities when hedging financial and non-financial risks.

While AASB9 does not need to be applied until 1 January 2017, the Company has decided to adopt it from 1 July 2013. The main effects resulting from the adoption were:

- The Company elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale, because the business model is to hold these equity investments for long-term strategic investment and not for trading. As a result, assets with a fair value of $441,780 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income.
- There was no difference between the previous carrying amount and the revised carrying amount of the financial assets at 1 July 2013 to be recognised in opening retained earnings.

The impact of these changes in the entity's accounting policy on individual line items in the financial statements can be summarised as follows:

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	PREVIOUS POLICY $	ADJUSTMENT $	REVISED POLICY $
2014			
Impairment of available-for-sale financial assets	(1,778,000)	1,778,000	-
Profit before income tax expense	(6,594,000)	1,778,000	(4,816,000)
Income tax benefit/(expense)	3,654,982	(533,400)	3,121,582
Profit after income tax expense for the year attributable to the owners of Armour Energy Ltd	(2,939,018)	1,244,600	(1,694,418)
Other Comprehensive Income			
Items that will not be reclassified to profit or loss			
Change in fair value of financial assets at fair value through other comprehensive income	(2,250,000)	(1,778,000)	(4,028,000)
Income tax on items that may be reclassified to profit or loss	675,000	533,400	1,208,400
Other comprehensive income for the year, net of tax	(1,575,000)	(1,244,600)	(2,819,600)
Total comprehensive income for the year attributable to the owners of Armour Energy Ltd	**(4,514,018)**	**-**	**(4,514,018)**
Basic earnings per share (cents)	(1.0)	0.4	(0.6)
Diluted earnings per share (cents)	(1.0)	0.4	(0.6)

STATEMENT OF FINANCIAL POSITION	PREVIOUS POLICY $	ADJUSTMENT $	REVISED POLICY $
2014			
Retained earnings	(4,049,405)	1,244,600	(2,804,805)
Financial assets revaluation reserve	-	(1,244,600)	(1,244,600)
Total equity	82,425,330	-	82,425,330

There is no effect of the change in accounting policy in the annual financial statements for the year ended 30 June 2013.

This changed accounting policy has no effect on the Consolidated Statement of Financial Position, other than the changes in equity per above, or on net change in cash.

NOTE 2. REVENUE AND OTHER INCOME

	2014 $	2013 $
(a) Interest revenue from:		
- Term deposits held with financial institutions	371,162	2,212,739
- Australian Taxation Office	647	129
- Lakes Oil convertible notes	133,600	122,500
Total Interest Revenue	**505,409**	**2,335,368**
(b) Other income		
- Change in fair value on investments	1,111,780	2,450,000
- Fuel Tax Credit	322,728	-
Total Other Income	1,434,508	2,450,000

NOTE 3. PROFIT / (LOSS)

	2014 $	2013 $
Included in the profit / (loss) are the following specific expenses:		
Finance costs		
- Interest expense	367	1,573
Depreciation		
- Office equipment	20,730	15,865
- Motor vehicles	34,912	38,951
- Plant and equipment	14,845	3,544
Defined contribution superannuation expense	219,384	184,230
(Gain)/loss of foreign exchange	110,035	(1,639)
Loss on disposal of property plant and equipment	26,706	-

NOTE 4. INCOME TAX

	2014 $	2013 $
(a) Component of income tax expense (benefit)		
Income tax expense (benefit) is made up of:		
Current tax	(7,106,464)	(3,908,558)
Deferred tax	3,984,882	1,905,188
	(3,121,582)	**(2,003,370)**
Components of tax expense on other comprehensive Income comprise: Deferred tax	**1,208,400**	-
(b) The prima facie tax on profit / (loss) before income tax is reconciled to the income tax expense as follows:		
Prima facie tax on profit / (loss) before income tax at 30% (2013: 30%)	(1,444,800)	(127,041)
Add tax effect of:		
Share based payments	551,340	128,146
Expenses not deductible for tax purposes	1,907	1,322
Other	138,792	190,821
Deferred Tax Asset utilised following R&D cash back	4,737,643	1,711,940
Less tax effect of:		
R&D cash back amount	(7,106,464)	(3,908,558)
Income tax expense / (benefit)	(3,121,582)	(2,003,370)
Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Net deferred tax - debited (credited) directly to equity	(1,095)	(1,880,854)
	(1,095)	(1,880,854)

2014	OPENING BALANCE $	NET CHARGED TO INCOME $	NET CHARGED TO OTHER COMPREHENSIVE INCOME $	NET CHARGED TO EQUITY $	NET MOVEMENT ON UNWIND/ TRANSFER $	CLOSING BALANCE $
c) Reconciliation of Net deferred tax						
Deferred tax asset						
Carried forward tax losses	12,616,051	4,295,502	-	-	884,642	17,796,195
Accruals/ provisions	(180,493)	264,626	-	-	-	84,133
Property, Plant & Equipment	11,956	(2,325)	-	-	-	9,631
Capital raising costs through P&L	-	66,722	-	-	-	66,722
Capital raising costs in equity	1,880,854	(133,443)	-	1,095	(884,642)	863,864
Potential benefit at 30% (2012: 30%)	**14,328,368**	**4,491,082**	**-**	**1,095**	**-**	**18,820,545**
Deferred tax liability						
Exploration & Evaluation assets	(12,942,702)	(8,142,430)	-	-	-	(21,085,132)
Financial assets at fair value through profit or loss	(735,000)	(333,534)	-	-	1,002,600	(65,934)
Available for sale financial assets	(675,000)	-	1,208,400	-	1,002,600	(469,200)
Potential benefit at 30% (2012: 30%)	**(14,352,702)**	**(8,475,964)**	**1,208,400**	**-**	**-**	**(21,620,266)**
Net deferred tax	**(24,334)**	**(3,984,882)**	**1,208,400**	**1,095**	**-**	**(2,799,721)**

2013	OPENING BALANCE $	NET CHARGED TO INCOME $	NET CHARGED TO OTHER COMPREHENSIVE INCOME $	NET CHARGED TO EQUITY $	NET MOVEMENT ON UNWIND/ TRANSFER $	CLOSING BALANCE $
Deferred tax asset						
Carried forward tax losses	6,758,565	5,857,486	-	-	-	12,616,051
Accruals/ provisions	187,783	(368,276)	-	-	-	(180,493)
Property, Plant & Equipment	-	11,956	-	-	-	11,956
Capital raising costs through P&L	-	-	-	-	-	-
Capital raising costs in equity	-	-	-	1,880,854	-	1,880,854
Potential benefit at 30% (2012: 30%)	**6,946,348**	**5,501,166**	**-**	**1,880,854**	**-**	**14,328,368**
Deferred tax liability						
Exploration & Evaluation assets	(6,115,576)	(6,827,126)	-	-	-	(12,942,702)
Financial assets at fair value through profit or loss	-	(735,000)	-	-	-	(735,000)
Available for sale financial assets	(675,000)	-	-	-	-	(675,000)
Other assessable temporary differences	(155,772)	155,772	-	-	-	
Potential benefit at 30% (2012: 30%)	**(6,946,348)**	**(7,406,354)**	**-**	**-**	**-**	**(14,352,702)**
Net deferred tax	**-**	**(1,905,188)**	**-**	**-**	**-**	**(24,334)**

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 2014 under COT.

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

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

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

(iii) No changes in tax legislation adversely affect the Company in realising the losses.

(d) Petroleum Resource Rent Tax Note

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 is imposed on a project-by-project basis. This tax applies to upstream mining operations only, and the effective rate of Petroleum Resource Rent Tax is 22.5%. This tax is considered to be an "income tax" for the purposes of AASB 112. Certain transition measures are contained in the legislation which can give rise to deductions in future years by adopting fair value, for Petroleum Resource Rent Tax purposes. Affected entities had until 31 December 2013, to exercise an election to adopt fair value as opposed to cost, in determining their future deductions. The Company is not in the production phase yet and is currently below the taxable threshold. Accordingly, the Company has not exercised its election, nor have fair value modeling and valuations been performed.

NOTE 5. DIVIDENDS AND FRANKING CREDITS

There were no dividends paid or recommended during the year or since the end of the year (2013: none). There are no franking credits available to shareholders of the Company (2013: none).

NOTE 6. AUDITORS REMUNERATION

	2014 $	2013 $
BDO Audit Pty Ltd Audit and review of the financial reports	49,000	48,000
Taxation services	12,734	9,020
	61,734	**57,020**

NOTE 7. EARNINGS PER SHARE (EPS)

	2014 $	2013 $
(a) Earnings		
Earnings used to calculate basic and diluted EPS	(1,694,418)	1,579,900
	NUMBER OF SHARES	NUMBER OF SHARES
(b) Weighted average number of shares		
Weighted average number of ordinary shares outstanding during the year, used in calculating basic earnings per share	300,813,437	300,000,000
Weighted average number of dilutive options outstanding during the year	-	-
Weighted average number of ordinary shares and potential ordinary shares outstanding during the year, used in calculating diluted earnings per share	300,813,437	300,000,000

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

Performance shares and options are not considered dilutive, as the performance criteria associated with the performance shares and rights is unlikely to be achieved prior to their expiry.

NOTE 8. CASH AND CASH EQUIVALENTS

	2014 $	2013 $
Cash at bank	1,005,924	1,389,877
Short-term deposits	5,469,017	35,663,517
	6,474,941	**37,053,394**

NOTE 9. TRADE AND OTHER RECEIVABLES

GST refundable	86,279	1,006,039
Trade receivables	25,345	
Other receivables	7,535	7,535
	119,159	**1,013,574**

Receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. No impairment loss has been recorded for the current and previous financial year.

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.

The receivables are not exposed to foreign exchange risk. No receivables were past due or impaired at 30 June 2014 (2013: nil).

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NOTE 10. OTHER CURRENT ASSETS

	2014 $	2013 $
Prepayments	283,682	311,182
Interest receivable	14,758	474,640
	298,440	785,822

NOTE 11. OTHER FINANCIAL ASSETS

	2014 $	2013 $
NON-CURRENT Financial assets at fair value through Profit or Loss – Australian Convertible Notes	441,780	4,900,000
Financial assets at fair value through Other Comprehensive Income – Australian listed shares	6,044,000	4,502,000
Security deposits	921,037	764,027
	7,406,817	**10,166,027**
Movements in financial assets at fair value through Profit or Loss		
Opening balance at 1 July	4,900,000	-
Additions	-	2,450,000
Fair value adjustments through Profit or Loss	1,111,780	2,450,000
Conversion into shares accounted for as available for sale financial assets	(5,570,000)	-
Closing balance at 30 June	**441,780**	**4,900,000**

Financial assets at fair value through Profit or Loss comprise investments in Convertible Notes of Lakes Oil NL.

Interest is payable half yearly at the rate of 50 cents per Note immediately following each Interest Payment Date (31 May 2013, 30 November 2013, 31 May 2014 and 30 November 2014), equating to a 10% per annum interest rate. Each Note converts into 5,000 Shares on the maturity date 30 November 2014. On 10 December 2013, 222,800 notes were converted into ordinary shares.

	2014 $	2013 $
Movements in financial assets at fair value through Other Comprehensive Income		
Opening balance at 1 July	4,502,000	4,500,000
Additions on conversion of convertible notes to shares at fair value through Other Comprehensive Income	5,570,000	-
Other additions	-	2,000
Fair value adjustments through Other Comprehensive Income	(4,028,000)	-
Closing balance at 30 June	**6,044,000**	**4,502,000**

Financial assets at fair value through Other Comprehensive Income comprise investments in the ordinary issued capital of Lakes Oil NL and AusNiCo Limited, listed on the Australian Securities Exchange.

Refer to note 22 (e) for fair value disclosures.

Classification of assets at fair value through other comprehensive income.

For equity securities that are not held for trading, the Company has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss. These securities are presented separately in the balance sheet.

In the prior financial year, the group had designated financial assets as available-for-sale if they did not have fixed maturities and fixed or determinable payments, and management intended to hold them for the medium to long-term. Financial assets that were not classified into any of the other categories (at FVTPL, loans and receivables or held-to-maturity investments) were also included in the available-for-sale category.

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	2014 $	2013 $
Motor vehicles – at cost	140,878	194,793
Accumulated depreciation	(60,588)	(54,495)
Written down value	80,290	140,298
Office equipment – at cost	58,195	65,739
Accumulated depreciation	(33,906)	(21,023)
Written down value	24,289	44,716
Plant and equipment – at cost	84,559	62,969
Accumulated depreciation	(18,829)	(3,984)
Written down value	65,730	58,985
Total written down value	**170,309**	**243,999**

Reconciliation of carrying amounts at the beginning and end of the year

	MOTOR VEHICLES $	OFFICE EQUIPMENT $	PLANT & EQUIPMENT $	TOTAL $
Year ended 30 June 2014				
At 1 July 2013 net of accumulated depreciation	140,298	44,716	58,985	243,999
Additions	-	5,304	21,590	26,894
Disposals	(25,096)	(5,001)	-	(30,097)
Depreciation charge for the year	(34,912)	(20,730)	(14,845)	(70,487)
At 30 June 2014 net of accumulated depreciation	**80,290**	**24,289**	**65,730**	**170,309**
Year ended 30 June 2013				
At 1 July 2012 net of accumulated depreciation	179,249	33,901	1,960	215,110
Additions	-	26,680	60,569	87,249
Disposals	-	-	-	-
Depreciation charge for the year	(38,951)	(15,865)	(3,544)	(58,360)
At 30 June 2013 net of accumulated depreciation	**140,298**	**44,716**	**58,985**	**243,999**

NOTE 13. EXPLORATION AND EVALUATION ASSETS

	2014 $	2013 $
Exploration and evaluation assets	70,283,772	43,258,305
Movements in carrying amounts		
Balance at the beginning of the year	43,258,305	20,385,252
Additions	27,025,467	22,864,052
Additions acquired with Ripple Resources Pty Ltd	-	9,001
Balance at the end of the year	**70,283,772**	**43,258,305**

NOTE 14. TRADE AND OTHER PAYABLES

	2014 $	2013 $
Trade creditors	231,978	7,234,783
Accrued expenses	402,263	1,760,511
	634,241	**8,995,294**

Trade and other payables are non-interest bearing and are generally on 30-60 day terms.

Due to the short term nature of these payables, their carrying value is assumed to approximate fair value.

NOTE 15. PROVISIONS

	2014 $	2013 $
Employee benefits	53,828	106,380

NOTE 16. ISSUED CAPITAL

	2014 $	2013 $
(a) Issued and paid up capital		
301,390,240 (2013: 300,000,000) ordinary shares fully paid	89,357,536	89,008,001
Share issue costs	(7,529,619)	(7,525,969)
Recognition of deferred tax asset relating to share issue costs	1,881,949	1,880,854
	83,709,866	**83,362,886**

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Ordinary shares participate in dividends and the proceeds on winding up the Company. 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.

	NUMBER OF SHARES	$
(b) Reconciliation of issued and paid-up capital		
At 1 July 2012	300,000,000	81,654,388
Additional share issue costs relating to 20/4/12 issue	-	(172,356)
Recognition of deferred tax asset relating to share issue costs	-	1,880,854
At 30 June 2013	300,000,000	83,362,886
Shares issued as partial settlement of employee bonus arrangements ($0.34 per share, net of share issue costs – 29/08/13)	587,196	198,829
Performance options converted to shares (28/10/13)	180,000	36,000
Shares issued for cash ($0.20 per share – 05/03/14)	325,000	65,000
Shares issued under employment contracts ($0.16 per share, net of share issue costs – 5/3/14)	298,044	46,056
Recognition of deferred tax asset relating to share issue costs	-	1,095
At 30 June 2014	**301,390,240**	**83,709,866**

(c) Options

As at 30 June 2014, there were 118,930,000 unissued ordinary shares of Armour Energy Ltd under option, held as follows:

- 37,500,000 listed options to take up one ordinary share in Armour Energy Ltd (issued to initial and seed shareholders) at an exercise price of 50 cents. The options vested immediately on grant and expire 31 August 2014.
- 10,900,000 listed options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2011) at an exercise price of 50 cents. The options vested immediately on grant and expire 31 August 2014.
- 37,500,000 listed options to take up one ordinary share in Armour Energy Ltd (issued to IPO shareholders) at an exercise price of 50 cents. The options vested immediately on grant and expire 31 August 2014.
- 12,400,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2012) at an exercise price of 50 cents. The options vest over a 2 year period and have a life of 3 years. Accordingly, the options expire commencing 11 October 2014 through to 30 April 2015.
- 5,000,000 listed options to take up one ordinary share in Armour Energy Ltd (issued to the Lead Manager) at an exercise price of 50 cents. The options vested immediately on grant and expire 31 August 2014.
- 1,150,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2013) at an exercise price of 50 cents. The options vest over a 2 year period and have a life of 3 years. Accordingly, the options expire 7 May 2015.
- 3,850,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 50 cents. The options vest over a 6, 18 and 30 month period, and expire commencing 2 September 2016 to 26 August 2018.
- 3,750,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 75 cents. The options vest over a 6, 18 and 30 month period, and expire commencing 24 July 2018 to 26 August 2018.
- 3,750,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 1 dollar. The options vest over a 6, 18 and 30 month period, and expire commencing 24 July 2018 to 26 August 2018.
- 3,130,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 26 cents. The options vested immediately on grant, and expire 25 February 2017.

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(d) Performance Shares

As at 30 June 2014, there were 625,000 Performance Shares of Armour Energy Ltd issued to one (1) employee of the Company.

625,000 unlisted Performance Shares to convert into one ordinary share each in Armour Energy Ltd, upon satisfaction of the Performance Criteria applying to the Performance Share. The Performance Shares vest subject to performance criteria being met within 3 years (but not before the second anniversary after issue).

(e) Performance Rights

As at 30 June 2014, there were 625,000 issued Performance Rights of Armour Energy Ltd.

625,000 unlisted Performance Rights which are exercisable into one ordinary share each of Armour Energy Ltd upon vesting. The Performance Rights vest on 12 February 2014 and expire on 12 February 2015.

(f) Capital Risk Management

Management controls the capital of the Company in order to provide capital growth to shareholders and ensure the Company can fund its operations and continue as a going concern. The Company's capital comprises equity as shown on the statement of financial position. There are no externally imposed capital requirements. Management effectively manages the Company's capital by assessing the Company's financial risk and adjusting its capital structure in response to changes in these risks and the market. These responses include the management of share issues. There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year.

NOTE 17. SHARE-BASED PAYMENTS

(a) Recognised share-based payments

	2014 $	2013 $
Expense arising from equity settled share-based payment transactions recorded in the statement of comprehensive income	1,837,800	384,027

The share-based payments are described below. There have been no cancellations or modifications to any of the share based payments during 2014 and 2013.

(b) Types of share-based payment plans

Employee share option plan (ESOP)

Share options are granted to employees. The employee share option plan is designed to align participants' interests with those of shareholders by increasing the value of the Company'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 Company prohibits KMP 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.

Performance Shares

The Company issued performance shares to two (2) employees during 2012. A performance share shall:

1) be automatically converted into an ordinary share upon satisfaction of the Performance Criteria applying to the Performance Shares.
2) unless otherwise determined by the Board, a Performance Share shall covert into an ordinary share on the basis of one Performance Share for every one Share; and
3) an ordinary share issued upon conversion of a Performance Share will rank equally with other Shares on issue in the Company.

The Performance Shares vest subject to performance criteria being met within three (3) years (but not before the second anniversary after issue. The performance criteria applying to the 625,000 Performance Rights are the reclassification of resources/ reserves with Armour Energy's existing interests equivalent to or greater than:

(a) 2,000 PJ to 2P and or above;
(b) 3,000 PJ to 3P and or above; or
(c) 20,000 PJ to 2C and or above.

Performance Rights

The Company has established a Performance Rights Plan (Plan), being a long term incentive scheme aimed at creating a stronger link between an eligible recipient's performance and reward whilst increasing Shareholder value in the company.

The Company has obtained from ASIC the necessary relief to issue Performance Rights under the Performance Rights Plan without the need to hold a Financial Services licence or to issue a disclosure document.

The performance criteria applying to the 625,000 Performance Rights are the delivery of a new project on any new interests outside the Company's existing tenement interest that generates the addition of Prospective Resources equivalent to or greater than any one of the following:

(a) 5 tcf unconventional gas;
(b) 850 million barrels of unconventional oil;
(c) 100 bcf conventional gas; or
(d) 15 million barrels of conventional oil (with discovery after one hole even if not necessarily commercially viable).

Persons eligible to participate in the Plan include a Director, officer, employee or certain consultants (or their nominee) of the Company, or a controlled entity who the Board determines in its absolute discretion is to participate in the Performance Rights Plan (Eligible Person). The Board may in its absolute discretion issue or cause to be issued invitations on behalf of the Company to Eligible Persons to participate in the Plan. The invitation will include information such as performance hurdles and performance periods. On vesting, one Performance Right is exercisable into one ordinary share.

(c) Summaries of share-based payment plans

Summary of employee share options granted

The following table illustrates the number (no.) and weighted average exercise prices (WAEP) of, and movements in, share options granted during the year under the employee share option plan:

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	2014 NO.	2014 WAEP	2013 NO	2013 WAEP
Outstanding at the beginning of the year	24,950,000	$0.50	25,200,000	$0.50
Granted during the year	14,580,000	$0.64	1,150,000	$0.50
Forfeited during the year	(600,000)	$0.50	(1,400,000)	$0.50
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	38,930,000	$0.55	24,950,000	$0.50
Exercisable at the end of the year	21,180,000	$0.46	10,900,000	$0.50

In 2014, the company issued to employees a total of 14,580,000 share options to employees under the employee share option plan. Details of issues are below.

- 3,850,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 50 cents. If employees remain in service, the options vest over a 6, 18 and 30 month period, and expire commencing 2 September 2016 to 26 August 2018. A value of between $0.19 and $0.20 was calculated using the Black Scholes valuation methodology (refer below).
- 3,750,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 75 cents. If employees remain in service, the options vest over a 6, 18 and 30 month period, and expire commencing 24 July 2018 to 26 August 2018. A value of between $0.17 and $0.18 was calculated using the Black Scholes valuation methodology (refer below).
- 3,750,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 1 dollar. If employees remain in service, the options vest over a 6, 18 and 30 month period, and expire commencing 24 July 2018 to 26 August 2018. A value of between $0.16 and $0.17 was calculated using the Black Scholes valuation methodology (refer below).
- 3,130,000 unlisted options to take up one ordinary share in Armour Energy Ltd (issued under the Armour Energy Employee Share Option Plan during the year ended 30 June 2014) at an exercise price of 26 cents. If employees remain in service, the options vested immediately on grant, and expire 25 February 2017. A value of $0.097 was calculated using the Black Scholes valuation methodology (refer below).

Summary of Performance Shares granted

The following table illustrates the number (no.) of, and movements in, Performance Shares granted during the year:

	2014 NO.	2013 NO.
Outstanding at the beginning of the year	805,000	805,000
Granted during the year	-	-
Forfeited during the year	-	-
Exercised during the year	(180,000)	-
Expired during the year	-	-
Outstanding at the end of the year	625,000	805,000

Terms and conditions associated with the performance shares are outlined in note 16(d).

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Summary of Performance Rights granted

The following table illustrates the number (no.) of, and movements in, Performance Rights granted during the year under the Performance Rights Plan:

	2014 NO.	2013 NO.
Outstanding at the beginning of the year	625,000	625,000
Granted during the year	-	-
Forfeited during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at the end of the year	625,000	625,000

Terms and conditions associated with the performance rights are outlined in note 16(e).

(d) Share based payment pricing model

The fair value of the equity settled share-based payments granted (including ESOP) is estimated using a Black-Scholes options pricing model taking into account the terms and conditions upon which the instruments were granted.

The following table lists the inputs to the models used for the years ended 30 June 2014 and 2013:

	2014	2013
Weighted average exercise price	$0.64	$0.50
Weighted average life of the option	4.56 years	2.29 years
Underlying share price	$0.18 - $0.28	$0.32
Expected share price volatility	96.585% - 106.547%	70.54%
Risk free interest rate	2.64% - 3.10%	2.78%
Number of options issued	14,580,000	1,150,000
Value (Black-Scholes) per option	$0.097 - $0.198	$0.0949
Total value of options issued	$2,366,355	$109,135

Expected share price volatility was determined using historical volatility.

NOTE 18. RESERVES: NATURE AND PURPOSE

(a) Share-Option Reserve, Performance Shares Reserve and Performance Rights Reserve

The share option reserve, performance shares reserve and performance rights reserve (collectively "share based payments") is used to recognise the grant date fair value of share based payments issued to employee and other service providers.

(b) Financial assets revaluation reserve

As explained in note 11, the group has elected to recognise changes in the fair value of certain investments in equity securities in other comprehensive income. These changes are accumulated in a separate reserve within equity.

The entity does not have any policy on transferring amounts from this reserve to another reserve or to retained earnings when the relevant equity securities are sold.

(c) Available-for-sale financial assets

Until 30 June 2013, changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, were recognised in other comprehensive income, as described in note 11 and accumulated in a separate reserve within equity. Amounts were reclassified to profit or loss when the associated assets were sold or impaired. The balance in the reserve was transferred to the financial assets revaluation reserve and to retained earnings on 1 July 2013 as a result of the change in accounting policy as described in note 1.

NOTE 19. CASH FLOW RECONCILIATION

	2014 $	2013 $
Profit (Loss) after income tax	(1,694,418)	1,579,900
Non-cash items		
-Share based payments	1,837,800	384,027
-Depreciation	70,487	58,360
-Deferred tax	3,984,882	1,905,188
-Change in FV on investments through Profit or Loss	(1,111,780)	(2,450,000)
-Employee benefits settled by equity	248,535	-
-Loss on disposal of assets	26,706	-
Interest income classified as investing activities	(133,600)	(122,500)
Changes in operating assets and liabilities*		
(Increase) decrease in trade and other receivables	910,675	-
(Increase) decrease in other current assets	487,382	(80,632)
Increase (decrease) in trade and other payables	(1,354,519)	87,770
Increase (decrease) in provisions	(52,552)	64,082
Net cash flows from operating activities	3,219,598	1,426,195

* Net of amounts relating to exploration and evaluation assets.

Equity settled share based payment transactions are disclosed in note 17.

NOTE 20. RELATED PARTY DISCLOSURES

(a) Ultimate parent

Armour Energy is the ultimate parent of the group, and listed on the ASX on 26 April 2012.

(b) Key management personnel

Details relating to key management personnel, including remuneration paid are detailed in the Remuneration report.

(c) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

RELATED PARTY		SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	OTHER TRANSACTIONS WITH RELATED PARTIES
DGR Global Ltd (i)	2014	-	435,000	-
	2013	-	499,500	-

(i) The Company has a commercial arrangement with DGR Global Ltd for the provision of various services, whereby DGR Global provides resources and services including the provision of its administration and exploration staff, its premises (for the purposes of conducting the Company's business operations), 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 Company pays DGR Global a monthly management fee of $40,000 (2013: $45,000) per month. For the year ended 30 June 2014 $435,000 (2013: $499,500) was paid or payable to DGR Global for the provision of the Services. The total amount outstanding at year end was $nil (2013: $100).

The outstanding balances at each relevant year end are unsecured, interest free and settlement occurs in cash.

(d) Loans from related parties

No such loans existed at any time during the year ended 30 June 2014 (2013: $nil).

NOTE 21. CAPITAL COMMITMENTS

(a) Future Exploration Commitments

The Company 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 Company.
The commitments are as follows:

	2014 $	2013 $
Less than 12 months	45,607,500	30,962,500
Between 12 months and 5 years	56,813,333	96,182,500
	102,420,833	127,145,000

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Company has the option to negotiate new terms or relinquish the tenements. The Company also has the ability to meet expenditure requirements by joint venture or farm-in agreements.

NOTE 22. FINANCIAL RISK MANAGEMENT

(a) General Objectives, Policies and Processes

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company'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 Company'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 Company's financial instruments consist mainly of deposits with banks, receivables, other financial assets and payables.

The Board has overall responsibility for the determination of the Company'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 Company'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 Company's competitiveness and flexibility. Further details regarding these policies are set out below:

(b) Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Company incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Company. The Company's objective is to minimise the risk of loss from credit risk exposure.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance 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.

Credit risk is reviewed regularly by the Board. It arises from exposure to receivables as well as through deposits with financial institutions. There is no collateral held as security.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company and at balance date.

The Company'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-1), ANZ (local currency short term rating A-1+) and Westpac (local currency short term rating A-1+).

(c) Liquidity Risk

Liquidity risk is the risk that the Company 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 Company 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.

The Company manages liquidity risk by monitoring forecast cash flows and liquidity ratios such as working capital. The Company did not have any financing facilities available at balance date.

All financial liabilities are due within 12 months.

(d) 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 Company does not have any material exposure to market risk other than interest rate risk and price risk on available for sale financial assets.

Interest rate risk

Interest rate risk arises principally from cash and cash equivalents. 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 following tables.

	FLOATING INTEREST RATE	FIXED INTEREST RATE	NON-INTEREST BEARING	TOTAL CARRYING AMOUNT	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
	2014 $	2014 $	2014 $	2014 $	2014 $
(i) Financial assets					
Cash and cash equivalents	1,005,924	5,469,017	-	6,474,941	3.52%
Trade and other receivables	-	-	119,159	119,159	N/A
Available for sale financial assets	-	-	6,044,000	6,044,00	N/A
Investments at fair value through profit or loss	-	222,000	219,780	441,780	10%
Security deposits	-	-	921,037	921,037	N/A
Total financial assets	**1,005,924**	**5,691,017**	**7,303,976**	**14,000,917**	
(ii) Financial liabilities					
Trade and other payables	-	-	634,242	634,242	N/A
Total financial liabilities	**-**	**-**	**634,242**	**634,242**	

	FLOATING INTEREST RATE	FIXED INTEREST RATE	NON-INTEREST BEARING	TOTAL CARRYING AMOUNT	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
	2013 $	2013 $	2013 $	2013 $	2013 $
(i) Financial assets					
Cash and cash equivalents	1,389,877	35,663,517	-	37,053,394	3.95%
Trade and other receivables	-	-	1,013,574	1,013,574	N/A
Available for sale financial assets	-	-	4,502,000	4,502,000	N/A
Investments at fair value through profit or loss	-	2,450,000	2,450,000	4,900,000	10%
Security deposits	-	-	764,027	764,027	N/A
Total financial assets	**1,389,877**	**38,113,517**	**8,729,601**	**48,232,995**	
(ii) Financial liabilities					
Trade and other payables		-	8,995,294	8,995,294	
Total financial liabilities	**-**	**-**	**8,995,294**	**8,995,294**	

The Company has performed a sensitivity analysis relating to its exposure to interest rate risk. This demonstrates the effect on the profit and equity which could result from a change in these risks.

At 30 June 2014 the effect on profit and equity as a result of changes in the interest rate at that date would be as follows:

	2014 $	2013 $
Change in profit and equity		
–Increase in interest rate by 1%	10,059	13,899
–Decrease in interest rate by 1%	(10,059)	(13,899)

	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
2014				
Available for sale financial asset	6,044,000	-	-	6,044,000
Investments at fair value through profit or loss	441,780	-	-	441,780
2013				
Available for sale financial asset	4,502,000	-	-	4,502,000
Investments at fair value through profit or loss	4,900,000	-	-	4,900,000

Available for sale financial assets and investments at fair value through profit or loss are measured based on quoted securities.

NOTE 23. OPERATING SEGMENTS

The Company has identified its operating segment based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The Company is managed primarily on a geographic basis, which is the location of the respective areas of interest (tenements) in Queensland and the Northern Territory, Australia. Operating segments are determined on the basis of financial information reported to the Board. The Company does not yet have any products or services from which it derives an income.

Accordingly, management currently identifies the Company as having only one reportable segment, being exploration for shale oil and gas. The financial results from this segment are equivalent to the financial statements of the Company. There have been no changes in the operating segments during the year.

NOTE 25. 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.

There are no other contingent assets and liabilities at 30 June 2014.

NOTE 24. SUBSEQUENT EVENTS

The Directors are not aware of any significant changes in the state of affairs of the Company or events after the balance date that would have a material impact on the financial statements.

NOTE 26. CONTROLLED ENTITIES

CONTROLLED ENTITIES	COUNTRY OF INCORPORATION	PRINCIPLE ACTIVITY	PRINCIPLE PLACE OF BUSINESS	PERCENTAGE OWNED	
				2014	2013
Parent Entity:					
Armour Energy Ltd	Australia	Petroleum Exploration	Northern Australia	100%	100%
Subsidiaries of Armour Energy:					
Ripple Resources Pty Ltd	Australia	Mineral Exploration	Northern Australia	100%	100%

NOTE 27. PARENT COMPANY

The Corporations Act requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by Regulation 2M.3.01 which requires the following limited disclosure in regard to the parent entity (Armour Energy Limited). The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the accounting policy described in Note 1(b).

PARENT ENTITY	2014 $	2013 $
Statement of Financial Position		
Current Assets	8,051,447	40,248,245
Non-current Assets	77,862,963	53,668,331
Total Assets	85,914,410	93,616,576
Current Liabilities	686,604	9,101,674
Non-current liabilities	2,799,721	24,334
Total Liabilities	3,486,325	9,126,008
Net Assets	**82,428,085**	**84,790,568**
Issued Capital	83,709,866	83,362,886
Performance Shares Reserve	125,000	153,108
Performance Rights Reserve	125,000	86,183
Option Reserve	2,514,869	723,778
Financial Assets Revaluation Reserve	(1,244,600)	1,575,000
Accumulated Losses	(2,802,051)	1,109,970)
Total Shareholder's equity	**82,428,085**	**84,790,568**
Statement of Comprehensive Income		
Profit/(loss) for the year	**(1,692,081)**	**1,580,316**
Total comprehensive income for the year	**(4,511,681)**	**1,580,316**

GUARANTEES

No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

CONTINGENT LIABILITIES

The parent entity has no contingent liabilities.

CONTRACTUAL COMMITMENTS

There were no contractual commitments for the acquisition of property, plant and equipment entered into by the parent entity at 30 June 2014 (2013 - nil).

DIRECTOR'S DECLARATION

In accordance with a resolution of the Directors of Armour Energy Ltd, I state that:

1. In the opinion of the Directors:

   (a) The attached financial statements and notes of Armour Energy Ltd for the financial year ended 30 June 2014 are in accordance with the Corporations Act 2001, including:

      (i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the year ended on that date; and

      (ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1;

   (c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

   (d) The remuneration disclosures contained in the Remuneration Report comply with s300A of the Corporations Act 2001.

2. The Directors have been given the declarations required to be made by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

On behalf of the board

Nicholas Mather
Executive Chairman

Brisbane
Date: 25 September 2014

INDEPENDENT AUDITOR'S REPORT

To the members of Armour Energy Limited
Report on the Financial Report

We have audited the accompanying financial report of Armour Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2014, 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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 Armour Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion:

(a) the financial report of Armour Energy Limited is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 39 of the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion, the Remuneration Report of Armour Energy Limited for the year ended 30 June 2014 complies with section 300A of the Corporations Act 2001.

BDO

BDO Audit Pty Ltd
Damian Wright
Director
Brisbane, 25 September 2014

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